Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and nine months ended November 30, 2019 and November 30, 2018
(In Canadian Dollars)

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Financial Position
As at November 30, 2019 and February 28, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	November 30, 2019	February 28, 2019
		$	$
Assets			
Current Assets			
Cash		456,931	9,644,015
Accounts receivable	6	360,581	377,774
Biological assets	7	633,872	120,513
Inventories	8	2,144,997	206,232
Prepaid and other assets		194,219	690,809
		3,790,600	11,039,343
Non-Current Assets			
Property, plant and equipment	9	11,794,544	11,526,890
Right-of-use assets	11	553,353	-
Intangible assets	10	52,436,840	52,561,189
Goodwill		1,322,544	1,322,544
Total assets		**69,897,881**	**76,449,966**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12, 17	1,535,873	1,588,695
Lease obligations	11	144,634	-
Loans and borrowings	13	195,448	3,320,448
Convertible loan payable	5, 14	6,595,969	-
Contingent consideration payable	4, 17	-	4,218,058
		8,471,924	9,127,201
Non-Current Liabilities			
Lease obligations	11	329,054	-
Loans and borrowings	13	2,384,701	1,989,439
Convertible loan payable	14	-	7,168,254
Contingent consideration payable	4, 17	-	454,779
Deferred tax liability		1,364,933	1,364,933
Total liabilities		**12,550,612**	**20,104,606**
Shareholders' Equity			
Share capital		73,178,470	48,624,339
Reserves		6,777,438	23,019,791
Accumulated deficit		(22,608,639)	(15,298,770)
Total equity		**57,347,269**	**56,345,360**
Total liabilities and equity		**69,897,881**	**76,449,966**

Nature and continuance of operations (Note 1)
Commitments (Note 21)
Subsequent events (Note 22)

Approved on behalf of the board January 28, 2020

"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 Statement of Loss and Comprehensive Loss
For the three and nine months ended November 30, 2019 and November 30, 2018
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three months ended November 30, 2019	Three months ended November 30, 2018	Nine months ended November 30, 2019	Nine months ended November 30, 2018
		$	$	$	$
Revenue		640,925	-	774,757	-
Cost of Sales					
Production costs	8	353,552	15,827	487,057	15,827
Loss related to inventory impairment	8	431,066	-	646,005	-
Gross loss before fair value adjustments		(143,693)	(15,827)	(358,305)	(15,827)
Realized fair value adjustments on inventory sold	8	287,123	-	323,516	-
Unrealized loss (gain) on changes in fair value of biological assets	7	(1,513,620)	28,198	(2,856,513)	28,198
Gross profit (loss)		1,082,804	(44,025)	2,174,692	(44,025)
Expenses					
General and administration	18	1,216,527	1,128,077	4,139,867	2,797,625
Marketing		80,161	437,065	1,192,629	735,662
Depreciation and amortization	9, 10, 11	137,190	98,998	406,055	106,464
Share-based payments	16	339,771	604,000	1,234,025	1,178,906
		1,773,649	2,268,140	6,972,576	4,818,657
Loss from Operations		(690,845)	(2,312,165)	(4,797,884)	(4,862,682)
Other Expense (Income)					
Listing expense		-	-	-	4,656,288
Other expense		(9,526)	47,306	30,279	99,573
Finance and other costs	19	758,674	459,376	2,530,426	1,029,832
Foreign exchange		4,055	990	5,351	1,021
Loss on settlement on contingent consideration	4, 17	-	24,064	296,965	24,064
Changes in fair value of contingent consideration	4, 17	-	52,258	5,198	52,258
Gain on extinguishment of loans	13	-	-	(356,234)	(1,251,983)
		753,203	583,994	2,511,985	4,611,053
Net loss before tax		(1,444,048)	(2,896,159)	(7,309,869)	(9,473,735)
Income tax recovery		-	1,048,079	-	910,574
Net loss and comprehensive loss for the period		(1,444,048)	(1,848,080)	(7,309,869)	(8,563,161)
Basic and diluted loss per share		(0.01)	(0.01)	(0.04)	(0.07)
Weighted average number of shares outstanding					
Basic and diluted		220,157,235	161,792,272	197,611,419	117,999,482

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

Sprouty Canada Inc.
Condensed Interim Consolidated Statements of Changes in Equity
For the nine months ended November 30, 2019 and 2018
(Unaudited – 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, 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
Net loss and comprehensive loss for the period		-	-	-	-	-	-	-	(7,309,869)	(7,309,869)
Conversion of notes (net of deferred tax)	15(c)(i)	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Exercise of options	15(c)(ii), 16	400,500	249,424	-	(112,419)	-	-	(112,419)	-	137,005
Exercise of warrants	15(c)(iii), 15(d)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Exercise of Broker Equity Units	15(c)(iv), 15(f)	20,247	18,562	-	-	(5,401)	-	(5,401)	-	13,161
Issuance of shares for loan and interest	13(b), 15(c)(v)	4,716,606	3,443,122	-	-	-	-	-	-	3,443,122
Issuance of shares for equity earn-out provision	4, 15(c)(vi)	36,857,675	17,300,007	(17,300,007)	-	-	-	(17,300,007)	-	-
Share-based compensation	16	-	-	-	1,389,873	-	-	1,389,873	-	1,389,873
Balance, November 30, 2019		227,898,854	73,178,470	-	3,615,144	2,896,325	265,969	6,777,438	(22,608,639)	57,347,269

		Share Capital			Reserves					
	Notes	**Common Shares**	**Amount**	**Shares to be Issued**	**Share-Based Compensation**	**Warrants**	**Convertible Notes**	**Total Reserves**	**Accumulated Deficit**	**Total**
		#	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
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 period		-	-	-	-	-	-	-	(8,563,161)	(8,563,161)
Equity component of convertible notes (deferred tax recovery on conversion)		-	-	-	-	-	474,899	474,899	-	474,899
Warrants issued for convertible debentures		-	-	-	-	231,846	-	231,846	-	231,846
Issuance of shares for loan and interest repayments		9,021,505	3,698,817	-	-	-	-	-	-	3,698,817
Share-based payment		997,001	408,770	-	-	-	-	-	-	408,770
Conversion of notes (net of deferred tax)		11,970,452	3,984,768	-	-	84,260	(627,129)	(542,869)	-	3,441,899
Eliminate shares of Sproutly Inc. on reversed acquisition		(50,946,506)	-	-	-	-	-	-	-	-
Sproutly Canada Inc. shares issued to shareholders of Sproutly Inc. on reversed acquisition		103,389,536	-	-	-	-	-	-	-	-
Sproutly Canada Inc. shares issued to shareholders of Stone Ridge Exploration Inc. on reversed acquisition		19,670,731	3,943,140	-	20,745	292,125	-	312,870	-	4,256,010
Equity warrant unit financing	5	-	-	-	-	8,426,358	-	8,426,358	-	8,426,358
Convertible debenture unit financing (net of deferred tax)	5	-	-	-	-	1,449,087	385,422	1,834,509	-	1,834,509
Warrant units issued to broker for convertible debentures	5	-	-	-	-	267,122	-	267,122	-	267,122
Warrant units issued to brokers for equity warrant unit financing	5	-	-	-	-	396,503	-	396,503	-	396,503
Acquisition of Infusion Biosciences Canada Inc. and SSM Partners Inc.	4	36,857,676	19,112,328	17,300,007	-	-	-	17,300,007	-	36,412,335
Exercise of options		50,000	15,186	-	(5,186)	-	-	(5,186)	-	10,000
Exercise of warrants		2,203,190	554,072	-	-	(145,972)	-	(145,972)	-	408,100
Share-based compensation		-	-	-	1,178,906	-	-	1,178,906	-	1,178,906
Balance, November 30, 2018		162,171,133	39,549,667	17,300,007	1,524,560	11,569,183	385,422	30,779,172	(11,233,764)	59,095,075

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

Sproutly Canada Inc.
Consolidated Statement of Cash Flows
For the nine months ended November 30, 2019 and 2018
(Unaudited – Expressed in Canadian Dollars)

	Notes	Nine months ended November 30, 2019	November 30, 2018
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(7,309,869)	(8,563,161)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold		323,516	-
Unrealized gain (loss) on changes in fair value of biological assets	7	(2,856,513)	28,198
Loss related to inventory impairment	8	646,005	-
Depreciation of property, plant and equipment	9, 11	281,706	73,305
Amortization of intangible asset	10	124,349	33,159
Listing expense		-	4,255,464
Share-based compensation	16	1,389,873	1,178,906
Financing fees		-	231,846
Accretion expense		1,566,675	563,555
Interest recovery		-	(76,606)
Loss on settlement of contingent consideration	4, 17	296,965	24,064
Interest expense on lease obligations	11	45,915	-
Changes in fair value of contingent consideration	5	5,198	-
Gain on extinguishment of interest and loans	13	(356,234)	(1,251,983)
Deferred tax expense		-	(910,574)
Change in non-cash operating working capital			
GST receivables		114,638	126,447
Other receivables		(97,445)	(28,938)
Biological assets		(55,322)	(39,102)
Inventories		(509,810)	(3,440)
Prepaid expenses		496,590	(1,591,098)
Accounts payable and accrued liabilities		621,535	(410,374)
		(5,272,228)	(6,360,332)
Proceeds from (repayment of) Financing Activities			
Lease obligations	11	(232,694)	-
Short term loans		-	(103,552)
Proceeds from convertible debenture special warrant units		-	9,636,351
Proceeds from equity special warrant units		-	8,822,861
Proceeds from convertible debentures		-	2,659,000
Shares issued for option exercise	15(c)(ii)	137,005	10,000
Shares issued from warrant exercises	15(c)(iii)	1,584,918	408,101
Shares issued from Broker Equity Units exercises	15(c)(iv)	13,161	-
		1,502,390	21,432,761
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration	4	(4,975,000)	(4,525,000)
Purchase of property, plant and equipment		(442,246)	(315,404)
Cash acquired from reverse acquisition transaction		-	514,753
		(5,417,246)	(4,325,651)
Net change in cash		(9,187,084)	10,746,778
Cash, beginning of period		9,644,015	741,385
Cash, ending of period		**456,931**	**11,488,163**

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), 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. 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"). THR was incorporated on January 13, 2013 under the Ontario Business Corporation Act. 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 and inventories as at November 30, 2019.

The Company incurred an accumulative deficit of $22,608,639 and negative cash flows from operating activities for the period from January 17, 2017 to November 30, 2019. In addition, the Company has a negative working capital of $4,681,324. 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 and nine months ended November 30, 2019 and November 30, 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, 2018 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 January 28, 2020.

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 as this is the currency of the primary economic environment in which the Company operates. 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.

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. The Company has applied the following practical expedients:

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 November 30, 2019, the Company recognized right-of-use assets and lease liabilities of $660,467 and $534,101 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 14%. Refer to Note 11 for discussion on the impact for the three and nine months ended November 30, 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 Sprouty 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 Sprouty 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.

(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 period ended November 30, 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.

On September 10, 2019, the Company completed the remaining earn-out by obtaining analytical results of cannabinoids in water soluble and oil preparations from APP technology that met regulatory requirement for commercial sale of products in a specified jurisdiction. As a result, the Company issued 36,857,675 common shares to the seller of IBS Canada and SSM Partners as required under the terms of the earn-out provision.

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 November 30, 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 November 30, 2019	-

(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

(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 $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

6. Accounts receivable

	November 30, 2019	February 28, 2019
	$	$
Trade receivables	282	-
Subscription receivable	-	575
GST and HST receivable	271,964	343,558
Other receivable	88,335	33,641
	360,581	**377,774**

(Unaudited – Expressed in Canadian Dollars)

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	637,108
Changes in fair value less cost to sell due to biological transformation	2,856,513
Transferred to inventory upon harvest	(2,980,262)
Balance at November 30, 2019	**633,872**

As of November 30, 2019, the weighted average fair value less cost to complete and cost to sell was $5.45 per gram for dry cannabis and $1.34 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 November 30, 2019:

Inputs and assumptions – Dried cannabis	Value
Selling price per gram	$9.82
Attrition rate	5%
Average yield per plant	61 grams per plant
Cost per gram to complete production and sale	$4.37
Cumulative stage of completion in the production process	30 days

Inputs and assumptions – Trim	Value
Selling price per gram	$1.50
Attrition rate	5%
Average yield per plant	21 grams per plant
Cost per gram to complete production	$0.16
Cumulative stage of completion in the production process	30 days

(Unaudited – Expressed in Canadian Dollars)

7. Biological assets (continued)

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 November 30, 2019, are as follows:

Inputs and assumptions – Dry cannabis	Input value	Sensitivity	Effect on fair value
Selling price per gram	$9.82	Increase or decrease of $0.50 per gram	$51,943
Attrition rate	5%	Increase or decrease by 5%	$53,015
Average yield per plant	61 grams per plant	Increase or decrease by 10%	$102,040
Cost per gram to complete production	$4.37	Increase or decrease by $0.50	$121,243
Cumulative stage of completion in the production process	30 days	Increase or decrease by 7 days	$229,221

Inputs and assumptions – Trim	Input value	Sensitivity	Effect on fair value
Selling price per gram	$1.50	Increase or decrease of $0.50 per gram	$19,454
Attrition rate	5%	Increase or decrease by 5%	$2,959
Average yield per plant	21 grams per plant	Increase or decrease by 10%	$5,836
Cost per gram to complete production	$0.16	Increase or decrease by $0.05	$4,110
Cumulative stage of completion in the production process	30 days	Increase or decrease by 7 days	$11,854

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 November 30, 2019, it is expected that the Company's biological assets will yield approximately 242,486 grams of dry cannabis and 82,196 grams of trim when harvested. During the nine months ended November 30, 2019, the Company is expected to produce 1,043,733 grams of dry cannabis and 251,374 grams of trim.

8. Inventories

The following is a breakdown of inventory as at November 30, 2019:

	November 30, 2019 $	February 28, 2019 $
Dry cannabis	2,079,007	173,650
Cannabis oil	15,618	-
Supplies and consumables	50,372	32,582
	2,144,997	**206,232**

For the three and nine months ended November 30, 2019, the Company capitalized $175,290 and $356,918 of production costs (three and nine months ended November 30, 2018 – nil and nil) respectively, related to post-harvest activities and held 401,689 grams of dry cannabis and 169,178 grams of trim.

During the three and nine months ended November 30, 2019, inventory expensed to cost of goods sold was $1,107,741 and $1,456,578 respectively (three and nine months ended November 30, 2018 – nil and nil), which included $431,066 and $646,005 of inventory impairment on specific harvests due to net book value exceeding its net realizable value.

(Unaudited – Expressed in Canadian Dollars)

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	-	147,816	-	1,380	-	389,786	538,982
Balance, November 30, 2019	**1,098,550**	**10,220,960**	**-**	**87,423**	**2,021**	**831,569**	**12,240,523**

	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	-	199,522	-	21,664	674	49,468	271,328
Balance, November 30, 2019	**-**	**338,139**	**-**	**35,517**	**2,021**	**70,302**	**445,979**
Net Book Value							
February 28, 2019	**1,098,550**	**9,934,527**	**-**	**72,190**	**674**	**420,949**	**11,526,890**
November 30, 2019	**1,098,550**	**9,882,821**	**-**	**51,906**	**-**	**761,267**	**11,794,544**

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 and dry cannabis inventory. During the three and nine months ended November 30, 2019, $36,766 and $98,488 (three and nine months ended November 30, 2018 – $3,155 and $3,155) of depreciation was capitalized.

10. Intangible assets

	Balance at February 28, 2019	Additions	Amortization	Balance at November 30, 2019
	$	**$**	**$**	**$**
Costs				
ACMPR license application	6,549,032	-	124,349	6,424,683
Technology license in process (Note 4)	46,012,157	-	-	46,012,157
	52,561,189	**-**	**124,349**	**52,436,840**

	Balance at February 28, 2018	Additions	Amortization	Balance at November 30, 2018
	$	**$**	**$**	**$**
Costs				
ACMPR license application	6,631,931	-	33,159	6,598,772
Technology license in process	-	46,012,157	-	46,012,157
	6,631,931	**46,012,157**	**33,159**	**52,610,929**

(Unaudited – Expressed in Canadian Dollars)

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 and production premises.

Costs	**$**
Balance, February 28, 2019	-
Additions	660,467
Balance, November 30, 2019	**660,467**
Accumulated Depreciation	**$**
Balance, February 28, 2019	-
Depreciation	107,114
Balance, November 30, 2019	**107,114**
Net Book Value	
February 28, 2019	-
November 30, 2019	**553,353**

(b) Maturity analysis of lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations and potential exposures as at November 30, 2019.

Contractual obligations	**Less than one year**	**One to five years**	**Total**
	$	**$**	**$**
Lease obligations recognized	144,634	329,054	473,688
Short-term leases not recognized(1)	43,200	-	43,200
	187,834	**329,054**	**516,888**

(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.

(c) Supplemental disclosure

For the three and nine months ended November 30, 2019, the Company recognized $17,578 and $46,610 of interest expense (three and nine months ended November 30, 2018 – nil and nil) respectively on lease obligations and $78,854 of lease payments associated with short-term leases in the unaudited condensed interim consolidated statement of loss and comprehensive loss. For the nine months ended November 30, 2019, the total cash outflow relating to leases amount to $401,821.

12. Accounts payable and accrued liabilities

	November 30, 2019	**February 28, 2019**
	$	**$**
Interest payable	394,606	809,438
Trade payables	820,341	658,680
Other payables	320,926	120,577
	1,535,873	**1,588,695**

(Unaudited – Expressed in Canadian Dollars)

13. Loans and borrowings

As at November 30, 2019, the Company held the following loans and borrowings:

		November 30, 2019	February 28, 2019
		$	$
Current			
Borrowings	(a)	150,000	150,000
Interest bearing loan with 2546308 Ontario Inc.	(b)	-	3,125,000
Related party loan with 1023409 B.C. Ltd.	(c)	45,448	45,448
		195,448	3,320,448
Long-term			
Mortgage payable with 0982244 B.C. Ltd.	(d)	1,278,112	1,031,067
Interest bearing loan with 0982244 B.C. Ltd.	(d)	1,106,589	958,372
		2,384,701	1,989,439
		2,580,149	**5,309,887**

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	2,600,680	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	-	-	-	395,262	395,262
Repayment	-	(3,125,000)	-	-	(3,125,000)
November 30, 2019	**150,000**	**-**	**45,448**	**2,384,701**	**2,580,149**

(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 and nine months ended November 30, 2019, the Company incurred interest expense of $3,781 and $10,731 (three and nine months ended November 30, 2018 - $3,781 and $12,041).

(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.

On June 11, 2019, 2546308 Ontario Inc. forgave $261,901 of interest payable from THR and assigned the outstanding loan balance of $3,125,000 and $412,455 of interest payable to Sproutly Canada Inc., which was then settled for 4,716,606 Sproutly Canada common shares. The market price of the common shares on the date of settlement was $0.73 per share and the Company recognized a gain on extinguishment of loan of $94,333.

During the three and nine months ended November 30, 2019, the Company incurred interest expense of nil and $105,822 (three and nine months ended November 30, 2018 – $81,164 and $81,164) respectively. For the three and nine months ended November 30, 2018, $12,329 and $201,372 of interest was capitalized as part of borrowing costs in construction in progress of THR's production facility.

(Unaudited – Expressed in Canadian Dollars)

13. Loans and borrowings (continued)

(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 32.12% on June 24, 2018 and a $740,308 gain on extinguishment of loan was recorded.

During the three and nine months ended November 30, 2019, the Company incurred interest expense of $43,630 and $131,850 (three and nine months ended November 30, 2018 – $37,877 and $37,877) respectively, and recorded accretion expense of $55,833 and $247,045 (three and nine months ended November 30, 2018 - $7,523 and $37,372). For the three and nine months ended November 30, 2018, $5,753 and $114,892 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 and nine months ended November 30, 2019, the Company incurred interest expense of $37,397 and $113,013 (three and nine months ended November 30, 2018 – $32,466 and $32,466) respectively and recorded accretion expense of $62,121 and $148,217 (three and nine months ended November 30, 2018 - $33,784 and $72,320). For the three and nine months ended November 30, 2018, $4,931 and $73,397 of interest was capitalized as part of borrowing costs to construction in progress of the THR production facility.

14. Convertible loans payable

	$
Balance, February 28, 2019	7,168,254
Accretion	1,171,414
Conversion	(1,743,699)
Balance, November 30, 2019	**6,595,969**

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 November 30, 2019, $2,500,000 of convertible debentures were converted to 3,333,332 common shares of the Company with a combined fair value of $1,743,699. For the three and nine months ended November 30, 2019, the Company incurred interest expense of $166,833 and $536,994 (three and nine months ended November 30, 2018 – $216,710 and $216,710).

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 were released on November 6, 2018 and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of November 30, 2019, 21,543,540 shares were held in escrow.

(c) Issued and outstanding

(i) During the period ended November 30, 2019, $2,500,000 of convertible debentures were converted to 3,333,332 common shares of the Company (Note 14).

(ii) During the period ended November 30, 2019, 400,500 options (November 30, 2018 – 50,000 options) were exercised for gross proceeds of $137,005 (November 30, 2018 – $10,000). Non-cash compensation of $112,419 (November 30, 2018 – $5,186) was reclassified from reserves to share capital on exercise of these options.

(iii) During the period ended November 30, 2019, 2,233,719 warrants (November 30, 2018 – 2,203,190) were excised for gross proceeds of $1,584,918 (November 30, 2018 – $408,100). Non-cash compensation of $94,946 (November 30, 2018 - $145,972) was reclassified from reserves to share capital on the exercise of these warrants.

(iv) During the period ended November 30, 2019, 20,247 of Broker Equity Warrants issued as part of the special warrants bought deal financing (Note 5) were exercised for gross proceeds of $13,161 (November 30, 2018 – nil). Non-cash compensation of $5,401 (November 30, 2018 – nil) was reclassified from reserves to share capital on the exercise of these warrants.

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(c) Issued and outstanding (continued)

(v) On June 11, 2019, the Company issued 4,716,606 common shares to 2546308 Ontario Inc. to settled $3,125,000 of outstanding loan and $412,455 of interest (Note 13(b)).

(vi) On September 19, 2019, the Company issued 36,857,675 common shares to sellers of IBS Canada and SSM Partners upon the completion of the equity earn-out provision (Note 4).

As at November 30, 2019, there were 227,898,854 (November 30, 2018 – 162,171,33) 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, February 28, 2019	24,613,232	$0.79
Issued	10,124	$0.90
Exercised	(2,233,719)	$0.71
Expired	(1,116,156)	$0.08
Balance, November 30, 2019	**21,273,481**	**$0.83**

	Warrants \#	**Weighted Average Exercise Price** $
Balance, January 17, 2017 – incorporation date	-	-
Issued	7,522,038	$0.74
Balance, February 28, 2018	7,522,038	$0.74
Issued: RTO warrants	4,387,500	$0.18
Issued	2,802,277	$0.19
Exercised	(1,161,940)	$0.17
Balance, November 30, 2018	**13,549,875**	**$0.50**

The following table summarizes the warrants that remain outstanding as at November 30, 2019:

Exercise Price ($)	**Warrants Outstanding (#)**	**Expiry Date**
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
	21,273,481	

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(d) Share purchase warrants

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.

(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 November 30, 2019, no Broker CD Special Warrants were exercised.

(f) Equity Special Warrant Units

As part of the Special Warrants Bought Deal Financing (Note 5), 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. As at November 30, 2019, 20,247 of Broker Equity Units were exercised and the Company issued 20,247 common shares and 10,124 common share purchase warrants.

(Unaudited – Expressed in Canadian Dollars)

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	125,000	$0.58
Exercised	(400,500)	$0.34
Balance, November 30, 2019	**15,639,807**	**$0.34**

The weighted average share price at the dates the options were exercised during the period ended November 30, 2019 was $0.84 per share.

	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	10,746,249	$0.40
Exercised	(50,000)	$0.20
Balance, November 30, 2018	**13,940,307**	**$0.32**

The following table summarizes the stock options that remain outstanding as at November 30, 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	659,547
0.01	50,965	April 18, 2027	232
0.25	4,058,749	March 25, 2027	2,029,375
0.25	2,500,000	July 6, 2028	833,334
0.60	375,000	July 6, 2028	200,002
0.67	2,800,000	August 1, 2028	933,332
0.62	787,500	November 6, 2028	262,496
0.44	1,475,000	December 11, 2023	245,832
0.60	375,000	December 11, 2023	62,500
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	10,833
0.27	30,000	November 5, 2024	30,000
	15,639,807		**6,462,170**

For the three months and nine months ended November 30, 2019, the Company incurred $37,148 and $155,848 (three and nine months ended November 30, 2018 – $21,043 and $57,283) of expenses for options granted and vested to consultants for services.

(Unaudited – Expressed in Canadian Dollars)

16. Share-based compensation (continued)

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)	$0.27-$0.80	$0.20-$0.82
Volatility	90.68% to 100.00%	74.28% to 100.00%
Expected life	2.5 to 3.5 years	1.83 to 10 years
Dividend yield	0%	0%
Risk-free rate	1.43% to 1.51%	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.

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 and nine months ended November 30, 2019 are as follows:

	Three months ended		Nine months ended	
	2019	November 30, 2018	2019	November 30, 2018
	$	$	$	$
Management compensation[(i)]	198,276	352,961	890,622	738,860
Share-based payments[(ii)]	209,963	440,132	807,621	917,150
	408,239	**793,093**	**1,698,243**	**1,656,010**

(i) As of November 30, 2019, the Company owed $134,904 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 period ended November 30, 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

	Three months ended		Nine months ended	
	2019	November 30, 2018	2019	November 30, 2018
	$	$	$	$
Professional fees	297,075	326,205	1,122,807	820,229
Office and administration	466,921	249,509	1,273,478	665,378
Wages	452,531	552,363	1,743,582	1,312,018
	1,216,527	**1,128,077**	**4,139,867**	**2,797,625**

(Unaudited – Expressed in Canadian Dollars)

19. Finance and other costs

	Three months ended November 30, 2019	2018	Nine months ended November 30, 2019	2018
	$	$	$	$
Accretion expense	489,037	205,759	1,566,676	511,299
Bank charges	660	9,940	18,956	13,695
Financing fees	-	-	-	231,846
Interest expense	268,977	243,677	944,794	272,992
	758,674	**459,376**	**2,530,426**	**1,029,832**

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 November 30, 2019:

Valuation approach	Key inputs	Inter-relationship between inputs and fair value measurement
The liability of lease obligations was valued using Company specific interest rates over expected payment periods. The fair value of the lease was $534,101.	Discount rate – 14% 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.

(Unaudited – Expressed in Canadian Dollars)

20. Financial instruments and risk management (continued)

(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 November 30, 2019, the Company had current assets of $3,790,600 to settle current liabilities of $8,471,924.

(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.

21. Commitments

On June 1, 2019 the Company entered into a one year building lease agreement for monthly payments of $7,200 expiring on May 31, 2020.

Future lease payments of the remaining lease are $43,200

	$
2020	21,600
2021	21,600
	43,200

In accordance with the simplified transition approach and practical expedients applied, the Company elected not to recognize right-of-use assets and lease liabilities for short-term leases for this lease.

22. Subsequent events

On January 28, 2020, the Company secured a private loan with Infusion Biosciences Inc., a related party, for $1 million. The loan carries an interest rate of 10% per annum accruing and compounding monthly, payable on maturity on or before October 24, 2020. The Loan is evidenced by a secured convertible debenture (the "Convertible Debenture") that provides the Lender with the right to convert the principal of the Loan into units of the Company (the "Units") at a conversion price of $0.19 per Unit, subject to adjustment in accordance with the terms of the Convertible Debenture. Each Unit will consist of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"), with each Warrant entitling the Lender to acquire one Common Share at an exercise price equal to $0.20 for a period of two years from date of issuance.