Sproutly Canada Inc.

Consolidated Financial Statements

For the years ended February 29, 2020 and February 28, 2019
(In Canadian Dollars)

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Independent Auditor's Report

To the Shareholders of Sproutly Canada Inc.:

Opinion

We have audited the consolidated financial statements of Sproutly Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 29, 2020 and February 28, 2019, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 29, 2020 and February 28, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss and comprehensive loss of $61,610,994 and had cash used in operating activities of $6,531,680 during the year ended February 29, 2020 and, as of that date, had an accumulated deficit of $76,909,764 and a working capital deficit of $8,322,410. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jaspreet Chahal.

Burlington, Ontario

August 28, 2020

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Sproutly Canada Inc.
Consolidated Statements of Financial Position
As at February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

	Notes	February 29, 2020	February 28, 2019
		$	$
Assets			
Current Assets			
Cash		32,287	9,644,015
Accounts receivable	7	258,211	377,774
Biological assets	8	10,401	120,513
Inventories	9	475,665	206,232
Prepaid and other assets		154,134	690,809
Deferred loss	4	491,429	-
		1,422,127	11,039,343
Non-Current Assets			
Property, plant and equipment	11	3,455,005	11,526,890
Right-of-use assets	13	87,437	-
Intangible assets and goodwill	12	11,628,310	53,883,733
Total assets		**16,592,879**	**76,449,966**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	14, 19	1,679,277	1,588,695
Lease obligations	13	24,471	-
Loans and borrowings	15	195,448	3,320,448
Convertible loan payable	16	7,845,341	-
Contingent consideration payable	5	-	4,218,058
		9,744,537	9,127,201
Non-Current Liabilities			
Lease obligations	13	72,926	-
Loans and borrowings	15	2,495,641	1,989,439
Convertible loan payable	16	-	7,168,254
Contingent consideration payable	5	-	454,779
Deferred tax liability	24	416,756	1,364,933
Total liabilities		**12,729,860**	**20,104,606**
Equity			
Share capital	17	73,188,162	48,624,339
Reserves		7,584,621	23,019,791
Accumulated deficit		(76,909,764)	(15,298,770)
Total equity		**3,863,019**	**56,345,360**
Total liabilities and equity		**16,592,879**	**76,449,966**

Nature and continuance of operations (Note 1)
Commitments (Note 26)
Subsequent events (Note 27)

Approved on behalf of the board August 28, 2020

"Arup Sen" , Director

"Con Constandis" , Director

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

Sproutly Canada Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
		$	$
Revenue		1,021,141	-
Excise duties		(94,169)	-
Net revenue		926,972	-
Cost of sales	9	790,676	15,827
Loss related to inventory impairment	9	2,086,985	-
Gross loss before fair value adjustments of biological assets		(1,950,689)	15,827
Realized fair value adjustments on inventory sold	9	411,313	-
Unrealized loss (gain) on changes in fair value of biological assets	8	(2,016,854)	(149,784)
Gross profit (loss)		(345,148)	133,957
Operating Expenses			
General and administration	20	6,260,327	4,354,246
Marketing		273,663	1,777,077
Depreciation and amortization	11,12,13	564,217	240,472
Share-based payments	18	1,506,728	1,788,770
Impairment charge for non-financial assets	10, 11, 12	50,351,000	-
Total operating expenses		58,955,935	8,160,565
Loss from Operations		59,301,083	8,026,608
Other Expenses (Income)			
Listing expense		-	4,656,288
Other expense		84,694	107,878
Finance and other costs	21	3,350,380	1,901,576
Foreign exchange		3,828	(1,222)
Gain on extinguishment of lease obligation	13	(18,304)	
Loss on settlement on contingent consideration	5	296,965	24,064
Changes in fair value of contingent consideration	5	5,198	75,532
Loss on convertible bridge loan financing	4	80,528	-
Gain on extinguishment and modification of loans	15	(356,234)	(1,251,983)
		3,447,055	5,512,133
Net loss before tax		62,748,138	13,538,741
Income tax recovery	24	(1,137,144)	(910,574)
Net loss and comprehensive loss for the year		61,610,994	12,628,167
Basic and diluted loss per share		($0.30)	($0.10)
Weighted average number of shares outstanding			
Basic and diluted		205,112,854	132,161,533

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

Sprouty Canada Inc.
Consolidated Statements of Changes in Equity
For the years ended February 29, 2020 and February 2019
(Unaudited – Expressed in Canadian Dollars)

		Share Capital			Reserves					
	Notes	Common Shares	Amount	Shares to be Issued	Share-Based Compensation	Warrants	Convertible Notes Reserves	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 year		-	-	-	-	-	-	-	(61,610,994)	(61,610,994)
Conversion of notes (net of deferred tax)	16(i), 17(c)(i)	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Share-based payment	17(c)(vii)	52,394	9,692	-	-	-	-	-	-	9,692
Exercise of options	17(c)(ii)	400,500	249,424	-	(112,419)	-	-	(112,419)	-	137,005
Exercise of warrants	17(c)(iii), 17(d)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Exercise of Broker Equity Units	17(c)(iv), 17(e)	20,247	18,582	-	-	(5,401)	-	(5,401)	-	13,161
Issuance of shares for loan and interest	15(b), 17(c)(v)	4,716,606	3,443,122	-	-	-	-	-	-	3,443,122
Issuance of shares for equity earn-out provision	5, 17(c)(vi)	36,857,675	17,300,007	(17,300,007)	-	-	-	(17,300,007)	-	-
Equity feature of convertible bridge loan financing (net of deferred tax)	4	-	-	-	-	-	510,911	510,911	-	510,911
Share-based compensation	18	-	-	-	1,686,145	-	-	1,686,145	-	1,686,145
Balance, February 29, 2020		227,951,248	73,188,162	-	3,911,416	2,896,325	776,880	7,584,621	(76,909,764)	3,863,019

		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 year		-	-	-	-	-	-	-	(12,628,167)	(12,628,167)
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	6	-	-	-	-	8,426,358	-	8,426,358	-	8,426,358
Exercise of equity warrant units	6	15,400,000	8,426,358	-	-	(8,426,358)	-	(8,426,358)	-	-
Convertible debenture unit financing (net of deferred tax)	6	-	-	-	-	1,449,087	385,422	1,834,509	-	1,834,509
Warrant units issued to broker for convertible debentures	6	-	-	-	-	267,122	-	267,122	-	267,122
Warrant units issued to brokers for equity warrant unit financing	6	-	-	-	-	396,503	-	396,503	-	396,503
Acquisition of Infusion Biosciences Canada Inc. and SSM Partners Inc.	5	36,857,676	19,112,328	17,300,007	-	-	-	17,300,007	-	36,412,335
Exercise of options	17(c)(ii)	50,000	15,186	-	(5,186)	-	-	(5,186)	-	10,000
Exercise of warrants	17(c)(iii)	4,968,832	1,202,386	-	-	(292,125)	-	(292,125)	-	910,261
Share-based compensation	18	-	-	-	1,992,036	-	-	1,992,036	-	1,992,036
Balance, February 28, 2019		180,336,775	48,624,339	17,300,007	2,337,690	2,996,672	385,422	23,019,791	(15,298,770)	56,345,360

Sproutly Canada Inc.
Consolidated Statements of Cash Flows
For the years ended February 29, 2020 and February 28, 2019
(Expressed in Canadian Dollars)

	Notes	2020	2019
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(61,610,994)	(12,628,167)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold	9	411,313	-
Unrealized gain (loss) on changes in fair value of biological assets	8	(2,016,854)	(149,784)
Loss related to inventory impairment	9	2,086,985	-
Depreciation of property, plant and equipment	11, 13	567,217	157,573
Amortization of intangible asset	12	165,798	82,899
Listing expense		-	4,255,464
Share-based payment	17(c)(vii)	9,692	-
Share-based compensation	18	1,686,145	1,992,036
Financing fees		-	231,846
Accretion expense		2,107,701	979,336
Interest recovery		-	(76,606)
Gain on extinguishment of lease obligation	13	(18,304)	-
Loss on settlement of contingent consideration	5, 19	296,965	24,064
Interest expense on lease obligations	13	58,896	-
Changes in fair value of contingent consideration	5	5,198	75,532
Gain on extinguishment of interest and loans	15(d)	(356,234)	(1,251,983)
Loss on convertible bridge loan financing	4	80,528	-
Impairment charge for non-financial assets	10, 11, 12	50,351,000	-
Deferred tax recovery	24	(1,137,144)	(910,574)
Change in non-cash operating working capital			
GST receivables		237,744	41,544
Other receivables		(118,181)	(10,125)
Biological assets		(741,999)	(43,217)
Inventories		101,234	(133,744)
Prepaid expenses		536,675	(611,150)
Accounts payable and accrued liabilities		764,939	(166,460)
		(6,531,680)	(8,141,516)
Proceeds from (repayment of) Financing Activities			
Lease obligations	13	(199,431)	-
Short term loans		-	(103,552)
Proceeds from convertible bridge loan financing	4	947,207	-
Proceeds from convertible debenture special warrant units	6	-	9,636,351
Proceeds from equity special warrant units	6	-	8,822,861
Proceeds from convertible debentures	16(iii)	-	2,659,000
Shares issued for option exercise	17(c)(ii)	137,005	10,000
Shares issued from warrant exercises	17(c)(iii)	1,584,918	910,261
Shares issued from Broker Equity Units exercises	17(c)(iv)	13,161	-
		2,482,860	21,934,921
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration	5	(4,975,000)	(4,525,000)
Purchase of property, plant and equipment		(587,908)	(380,470)
Cash acquired from reverse acquisition transaction		-	514,753
Acquisition of Infusion Biosciences Canada Inc. and SSM Partners Inc.		-	(500,060)
		(5,562,908)	(4,890,775)
Net change in cash		(9,611,728)	8,902,630
Cash, beginning of period		9,644,015	741,385
Cash, ending of year		**32,287**	**9,644,015**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		1,050,606	449,603

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), 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 5. IBS Canada was incorporated on February 28, 2018 under the Alberta Business Corporations Act. SSM Partners was incorporated on March 1, 2018 under the Companies Act of Barbados with International Business Company status.

On October 26, 2018, the Company commenced the process of growing cannabis with amounts classified as biological assets and inventories as at February 29, 2020 and February 28, 2019.

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect for the year ended February 29, 2020.

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on August 28, 2020.

b) Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations. As of February 29, 2020, the Company had working deficit of $8,322,410 (February 28, 2019 – working capital of $1,912,142) and an accumulated deficit of $76,909,764 (February 28, 2019 - $15,298,770). The Company used cash in operating activities of $6,531,680 (year ended February 28, 2019 - $8,141,516), resulting primarily from the net loss and comprehensive loss of $61,610,994 (year ended February 28, 2019 - $12,628,167) offset by items not affecting cash such as depreciation, amortization, stock based compensation and impairment charges of $55,079,314 (year ended February 28, 2019 - $4,486,651). The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

The Company will need further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this financing will be on acceptable terms. If adequate financing is not available, the Company may be required to delay or reduce the scope of any or all of its projects. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. Basis of presentation (continued)

b) Going concern (continued)

On March 11, 2020, the World Health Organization categorized the novel coronavirus ("COVID-19") as a pandemic. The potential economic effects within the Company's environment and industry along with measures introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantine and social distancing) could have a material impact on the Company's operations. The extent of the impact of this outbreak and related containment measures on the Company's operations cannot be reliability estimated at this time. Management has implemented a business transformation plan in the subsequent year in order to ensure the Company continues as a going concern (Note 27).

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Should the Company be unable to generate sufficient cash flow from financing and operating activities, the carrying value of the Company's assets could be subject to material adjustments and other adjustments may be necessary to these consolidated financial statements should such events impair the Company's ability to continue as a going concern.

c) Basis of consolidation

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

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

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

d) Basis of measurement

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

e) Use of estimates and judgments

The preparation of these consolidated financial statements requires the use of estimates and judgments that affect the application of the Company's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods effected.

Going concern

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

Biological assets and inventory

In calculating the fair value less costs to sell of the biological assets, management is required to make a number of judgments and estimates, including estimating the stage of growth of the cannabis plants up to the point of harvest, harvesting costs, selling costs, sales price, attrition and expected yields for the cannabis plants. In calculating inventory values, management is required to determine an estimate of indirectly attributable production costs as well as obsolete inventory and compares the inventory cost to estimated net realizable value.

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

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

Depreciation and amortization of property, plant and equipment and intangible assets are dependent upon estimates of useful lives, residual values, and depreciation rates. The depreciation and amortization methods are judgments based on the Company's assessment of the pattern of use of the assets. The estimate of useful lives and residual values are based on the Company's intended use of the assets. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions.

Income taxes

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

Fair value of financial instruments

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

Share-based payments and warrants

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

Leases

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities. Judgment must be applied when determining the implicit and incremental rates of borrowing, as applicable. Judgment must also be applied as to whether renewal options are reasonably certain of being exercised and whether periods covered by an option to terminate are reasonably certain of not being exercised.

Goodwill and indefinite-life intangible assets impairment

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

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

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

2. Basis of presentation (continued)

e) Functional and presentation of foreign currency

The 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

3. Significant accounting policies

a) 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.

b) Biological assets

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

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

c) Cost of sales

Production costs include the direct and indirect costs incurred prior to the harvest of cannabis plants. These costs include a portion of labour, quality and testing, depreciation, and utilities. Cost of sales is recognized on the consolidated loss and comprehensive loss using the average cost basis.

3. Significant accounting policies (continue)

d) Inventories

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

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

e) Property, plant and equipment

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

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

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

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

Right-of-use assets are depreciated at the lower of lease term and useful life of underlying asset.

f) Intangible assets

Intangible assets are recorded at cost less any accumulated amortization and accumulated impairment losses. Impairment for intangible assets with finite lives is tested if there is any indication of impairment.

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

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

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

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

3. Significant accounting policies (continued)

g) Goodwill

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit ("CGU") to which it relates.

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

h) Impairment of non-financial assets

Non-financial assets (other than biological assets and inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Goodwill is tested for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). Goodwill arising from a business combination is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other non-financial assets in the CGU, excluding biological assets and inventories, on a pro-rata basis. Impairment losses in respect of goodwill are not subsequently reversed. For other non-financial assets excluding biological assets and inventories, an impairment loss is subsequently reversed only to an amount that is the lesser of the revised estimate of recoverable amount, and the carrying amount, net of depreciation or amortization, that would have been recorded at the date of the reversal had no impairment loss been recognized previously. The Company has one CGU for the years ended February 29, 2020 and February 28, 2019 for the cultivation and sale of recreational cannabis in Canada. In addition to reviewing for indicators of impairment, impairment testing is required at least on an annual basis as the CGU consist of goodwill and intangible asset with indefinite life.

i) Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3. Significant accounting policies (continued)

i) Financial instruments

(ii) Classification and subsequent measurement

Financial Assets

On initial recognition, a financial asset is classified and measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment by investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets, if applicable. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial Assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequent measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit and loss.
Equity investments at FVOCI	These assets are subsequent measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired.

3. Significant accounting policies (continued)

i) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

Financial Instruments	**Classification**
Cash	Amortized cost
Accounts receivable (excluding GST and HST receivables)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loans and borrowings	Amortized cost
Convertible loans payable	Amortized cost
Contingent consideration payable	FVTPL

(iii) Derecognition

Financial Assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company may enter into transactions whereby it transfers assets recognized in its statements of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial Liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. For modification that are not considered substantial, the Company recalculates the amortized costs of the financial liability using the financial instrument’s original effective interest rate to reflect the actual and revised estimated contractual cash flows. The adjustment is then recognized as a profit or loss. Any cost or fees incurred adjust the carrying amount of the modified financial liability are amortized over the remaining term of the modified financial liability. On derecognition of a financial liability, the difference between the carrying amount extinguish and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Transaction Costs

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3. Significant accounting policies (continued)

i) Financial instruments (continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

j) Business combinations

Classification of an acquisition as a business combination or asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. The most significant estimates for business combination or asset acquisition involve contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value.

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

In an asset acquisition, all identifiable assets are recorded at their fair values. Management exercises judgement in applying the concentration test to determine whether substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The most significant estimates relate to contingent consideration and intangible assets. Management also exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value.

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

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

The Company has elected to early adopt the amendments to IFRS 3 as of March 1, 2018, which relate to the definition of a business.

The amendments are as follows:

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

3. Significant accounting policies (continued)

k) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on financial assets measured at amortized cost, debt investments mandatorily measured at FVOCI, and contract assets – the Company had no debt investment measured at FVOCI and no contract assets as at February 29, 2020 and February 28, 2019.

When determining whether the credit risk of a financial asset has increased significantly and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, based on the Company's historical experience and informed credit assessment and including forward looking information.

l) Leases

Effective as at March 1, 2019 through the adoption of IFRS 16 (Note 3(u)), a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and is adjusted for certain re-measurements of the lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs, and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

The right-of-use assets are depreciated using the straight-line method from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset if shorter. The estimated useful life of the right-of use assets are determined on the same basis as those of property, plant and equipment. The determination of the depreciation period is dependent on whether the Company expects that the ownership of the underlying asset will transfer to the Company by the end of the lease term or if the cost of the right-of-use asset reflects that the Company will exercise a purchase option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate reflects the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. The Company applies judgment to determine the lease term for some lease contracts which contain renewal options.

The Company does not recognize right-of-use assets and lease liabilities for leases of low-value assets and leases with lease terms that are less than 12 months. Lease payments associated with these arrangements are instead recognized as an expense over the term on either a straight-line basis, or another systematic basis if more representative of the pattern of benefit.

For prior year comparatives, a lease of property, plant and equipment is classified as a finance lease if it transfers substantially all the risks and rewards of ownership to the Company. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Property acquired under a finance lease is depreciated over the shorter of the period of expected use on the same basis as other similar property, plant and equity or the lease term.

3. Significant accounting policies (continued)

m) Convertible debentures

Convertible notes are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible notes in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

For convertible notes entered by the Company with favourable terms such as with a related party, the fair value of the financial instrument at initial recognition may differ with the fair value of the consideration received. If such condition exist, the Company is required to value both the financial liability and the equity instrument separately. The difference between the consideration received and the fair value of both the financial liability and equity instrument is recognized as a deferred gain or loss which shall be recognized in subsequent periods in the consolidated statement of loss and comprehensive loss only to the extent that it arises from a change in a factor (including time) that the market participants would take into account when pricing the financial liability.

Transaction costs are apportioned to the debt liability and equity components in proportion to the allocation of proceeds as a reduction to the carrying amount of the liability and equity component. The liability component of the convertible notes was valued using Company specific interest rates assuming no conversion features existed. The resulting debt component is accreted to its principal amount over the term to maturity as a non-cash interest charge and the equity component is presented in convertible notes reserve as a separate component of equity. Upon conversion, amounts held in reserve are transferred to share capital.

n) Share capital

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

o) Revenue recognition

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer, with an element of variable consideration for sales allowances to account for the potential return of goods, discounts and price concessions.

Gross revenue includes excise taxes, which the Company pays as principal, but excludes duties and taxes collected on behalf of third parties. Where the excise tax has been billed to customers, the Company has reflected the excise tax as part of revenue in accordance with IFRS 15. Net revenue from sale of goods, as presented on the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes. Given that the excise tax payable/paid to CRA cannot be reclaimed and is not always billed to customers, the Company recognizes that the excise tax is an operating cost that affects gross margin to the extent that it is not recovered from its customers.

Net revenue as presented in the consolidated statements of loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns. Excise taxes are a production tax which become payable when a cannabis product is delivered to the customer and are not directly related to the value of revenue.

The Company's contracts with customers for the sales of cannabis consist of one performance obligation. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when the Company satisfies its performance obligation upon delivery to the customer.

p) Strategic business initiatives

Costs of strategic business initiatives that are directly attributable to any business combinations are expensed through the consolidated statements of loss and comprehensive loss.

3. Significant accounting policies (continued)

q) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. All transactions are recorded under exchange value with the exception of the convertible bridge loan that is measured at fair value (Note 4).

r) Segment reporting

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

s) Loss per share

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

t) Income taxes

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

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

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

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

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

u) Share-based compensation

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. The fair value of options is calculated using the Black-Scholes option pricing model which incorporates certain assumptions such as expected lives, volatility, risk-free rate, future dividend yields and estimated forfeitures at the initial grant date. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

3. Significant accounting policies (continued)

u) Share-based compensation (continued)

For share-based payments granted to non-employees, the compensation expense is measured at the fair value of the good and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically remeasured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments.

Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

v) Recent accounting pronouncements adopted

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:

(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.

3. Significant accounting policies (continued)

v) Recent accounting pronouncements adopted (continued)

IFRS 16 Leases (continued)

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, 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. As a result, there were no adjustments to the accumulated deficit to the consolidated 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 year ended February 29, 2020, the Company recognized right-of-use assets and lease liabilities of $660,467 (Note 13) and $534,101 (Note 22(a)) respectively. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate. The weighted-average rate applied during the year ended February 29, 2020 was 14%. Refer to Note 13 for discussion on the impact for the year ended February 29, 2020.

w) Recent accounting pronouncements not yet effective

A number of new standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

(i) Amendments to *References of Conceptual Framework* in IFRS Standards

(ii) Definition of Material (Amendments to IAS 1 and IAS 8)

4. Convertible bridge loan financing

On January 28, 2020, the Company secured a $1,000,000 private loan with Infusion Biosciences Inc., a related company owned by an officer of the Company. The loan carries an interest rate of 10% per annum accruing and compounding monthly, payable 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. Total proceeds of the Convertible Debenture, net of transaction costs was $947,207.

The Company measured the hybrid instrument at $1,519,164, with $819,287 assigned to the liability component of the Convertible Debenture calculated based on a discount rate of 21%, which is the estimate of the observable market rate for similar convertible debentures. The liability component is recorded at amortized cost using the effective interest rate of 38.03%.

4. Convertible bridge loan financing (continued)

During the year ended February 29, 2020, the Company incurred interest of $11,134 and recorded accretion expense of $23,672.

The remaining $699,877 was assigned to the equity component of the conversion feature of the Convertible Debenture using a variant of the Black-Scholes option pricing model. The value of Warrants is first calculated using the Black-Scholes option pricing model, which is then added into share price to calculated the value of Units using the same methodology.

The value of Warrants were based on the following assumptions:

Share price	$0.19
Exercise price	$0.29
Annualized volatility	88.12%
Risk-free interest rate	1.44%
Dividend yield	0.00%
Expected life	2.74 Years

The value of Units were based on the following assumptions:

Share price	$0.29
Exercise price	$0.19
Annualized volatility	88.12%
Risk-free interest rate	1.51%
Dividend yield	0.00%
Expected life	0.74 Years

The difference between proceeds received net of transaction costs and fair value of $571,957 was recognized as deferred loss on convertible bridge loan financing, which shall be recognized over the life of the loan in the consolidated statement of loss and comprehensive loss. During the year ended February, 29, 2020, the company recognized a loss on convertible bridge loan financing of $80,528.

As part of the transaction, the Company has recorded a deferred tax liability of $188,966.

5. Acquisition of IBS Canada and SSM Partners

On July 31, 2018, the Company completed the acquisition of all of the issued and outstanding shares of IBS Canada and SSM Partners pursuant to Share Purchase Agreements for total consideration of $46,012,157.

Consideration consisted of $5,025,060 in cash and the issuance of 36,857,676 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 judgment 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.

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 valued 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.

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

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 February 29, 2020, 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 February 29, 2020, 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 (Note 3(j)) 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 February 29, 2020	-

6. Special warrants bought deal financing

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

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

6. Special warrants bought deal financing (continued)

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

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

6. Special warrants bought deal financing (continued)

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

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

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

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

7. Accounts receivable

	February 29, 2020	February 28, 2019
	$	$
Trade receivables	283	-
Subscription receivable	-	575
GST and HST receivable	147,358	343,558
Other receivable	110,570	33,641
	258,211	**377,774**

8. Biological assets

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

	$
Balance at February 28, 2019	120,513
Production costs prior to harvest capitalized	731,971
Changes in fair value less cost to sell due to biological transformation	2,016,854
Transferred to inventory upon harvest	(2,858,937)
Balance at February 29, 2020	**10,401**

As of February 29, 2020, the weighted average fair value less cost to complete and cost to sell was $0.10 per gram for dry cannabis and $0.05 for trim.

8. Biological assets (continued)

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 February 29, 2020 and February 28, 2019:

Inputs and assumptions – Dried cannabis	**2020**	**2019**
Selling price per gram	$1.91 per gram	$5.00 per gram
Attrition rate	10%	10%
Average yield per plant	59 grams per plant	119 grams per plant
Cost per gram to complete production and sale	$1.81	$0.16
Cumulative stage of completion in the production process	85 days	91 days

Inputs and assumptions – Trim	**2020**	**2019**
Selling price per gram	$1.00 per gram	Nil
Attrition rate	10%	10%
Average yield per plant	4 grams per plant	9 grams per plant
Cost per gram to complete production	$0.95	Nil
Cumulative stage of completion in the production process	85 days	91 days

Significant unobservable assumptions used in the valuation of biological assets, including the sensitivities on changes in these assumptions and their effect on the fair value of biological assets as at February 29, 2020, are as follows:

Inputs and assumptions – Dry cannabis	**2020**	**2019**	**Sensitivity**	**2020**	**2019**
Selling price per gram	$1.91 per gram	$5.00 per gram	Increase or decrease of $0.50 per gram	$33,477	$26,954
Attrition rate	5%	10%	Increase or decrease by 5%	$6,492	$6,738
Average yield per plant	59 grams per plant	119 grams per plant	Increase or decrease by 10%	$12,792	$13,477
Cost per gram to complete production	$1.81	$0.16	Increase or decrease by $0.05	$4,546	$4,328
Cumulative stage of completion in the production process	85 days	91 days	Increase or decrease by 7 days	$14,282	$38,833

8. Biological assets (continued)

Inputs and assumptions – Trim	2020	2019	Sensitivity	2020	2019
Selling price per gram	$1.00 per gram	Nil	Increase or decrease of $0.50 per gram	$2,103	Nil
Attrition rate	5%	10%	Increase or decrease by 5%	$211	Nil
Average yield per plant	4 grams per plant	9 grams per plant	Increase or decrease by 10%	$421	Nil
Cost per gram to complete production	$0.95	Nil	Increase or decrease by $0.05	$279	Nil
Cumulative stage of completion in the production process	85 days	91 days	Increase or decrease by 7 days	$456	Nil

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

As of February 29, 2020, it is expected that the Company's biological assets will yield approximately 90,917 grams of dry cannabis and 5,575 grams of trim when harvested. During the year ended February 29, 2020, the Company produced 993,856 grams of dry cannabis and 100,326 grams of trim.

9. Inventories

The following is a breakdown of inventory as at February 29, 2020:

	February 29, 2020 $	February 28, 2019 $
Dry cannabis	416,125	173,650
Supplies and consumables	59,540	32,582
	475,665	**206,232**

For the year ended February 29, 2020, the Company capitalized $615,386 of production costs (February 28, 2019 – $11,274) related to post-harvest activities and held 502,770 grams of dry cannabis and 175,498 grams of trim (February 28, 2019 – 34,730 grams of dry cannabis and 20,961 grams of trim).

During the year ended February 29, 2020, the Company recognized cost of goods sold of $790,676 (February 28, 2019 - $15,827) and expenses related to changes in fair value of inventory sold of $411,313 (February 28, 2019 – nil). In addition, the Company recognized $2,086,985 (February 28, 2019 – nil) of inventory impairment on specific harvests due to net book value exceeding its net realizable value.

10. Impairment of CGU

The Company performs tests for impairment of its goodwill and indefinite life intangible assets on an annual basis, as set out in its accounting policy described in Note 3 or along with property, plant and equipment when there are indicators of impairment. As a result of an impairment assessment at February 29, 2020, the Company's single CGU yielded a lower recoverable amount in comparison to the applicable carrying value. The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU using level 3 inputs. As at February 29, 2020, the carrying amount of the CGU was determined to be higher than its recoverable amount of $13,499,656 for which a non-cash impairment charge of $50,351,000 was recognized.

The non-cash impairment charge was first allocated to goodwill, with the remaining amount of the impairment charge allocated pro rata on the basis of the carrying amount of each non-financial asset, excluding biological assets and inventories, in the CGU. The non-cash impairment charge to goodwill and intangible assets were $1,322,544 and $40,767,081 respectively. The non-cash impairment charge to property, plant and equipment was $8,261,375.

10. Impairment of CGU (continued)

The significant assumptions applied in the determination of the recoverable amount are described as follows:

(i) Cash flows: Estimated cash flows were projected based on industry and market trends in addition to the Company's own internal sources which included estimates for price compression and industry growth. The forecasts were extended to a total of five years (and a terminal year after);

(ii) Terminal value growth rate: A long-term growth rate has been determined as the lower of the nominal gross domestic product rate for the country in which the CGU operates and the long-term compound annual growth rate estimated by management; and

(iii) Discount rate: The discount rate is based on the Company's weighted average cost of capital ("WACC") based on the Company's cost of capital in which the Company's cost of equity and cost of debt are proportionately weighted. The inputs into the WACC are based on the Company's specific borrowing rate as well as the effective borrowing rate of comparable companies in the relevant market and in the same currency as the cash flows, adjusted for risk premium to reflect both the increased risk of investing in equities generally and the unsystematic risk on the specified CGU.

The key assumptions used in calculating the recoverable amount tested for impairment as at February 29, 2020 are outline below:

Discount rate	25.10%
Year-over-year revenue growth rate[(i)]	6.00% - 235.00%
Terminal value growth rate	2.00%

(i) Year-over-year growth rate of 235% is a one-time significant increase upon full implementation of Company's new business strategies

Following the non-cash impairment charges recognized, the recoverable amount of the CGU was equal to its carrying amount. Therefore, any adverse movement in a key assumption could lead to further impairment. Conversely, any favorable movement in a key assumption could lead to a reversal of impairment.

11. 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	-	156,241	-	1,380	-	394,445	552,066
Balance, February 29, 2020	**1,098,550**	**10,229,385**	**-**	**87,423**	**2,021**	**836,228**	**12,253,607**

	Land	Building & Improvements	Construction in Progress	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated Depreciation and impairment	**$**	**$**	**$**	**$**	**$**	**$**	**$**
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	-	264,580	-	28,950	674	68,372	362,576
Impairment		7,645,425		34,717	-	581,233	8,261,375
Balance, February 29, 2020	**-**	**8,048,622**	**-**	**77,520**	**2,021**	**670,439**	**8,798,602**
Net Book Value							
February 28, 2019	**1,098,550**	**9,934,527**	**-**	**72,190**	**674**	**420,949**	**11,526,890**
February 29, 2020	**1,098,550**	**2,180,763**	**-**	**9,903**	**-**	**165,789**	**3,455,005**

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. Borrowing costs from loans to fund the construction of the facility are also capitalized and allocated to building upon completion. Depreciation commenced when construction had been completed and the facility was available for use.

11. Property, plant and equipment (continued)

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 year ended February 29, 2020, $135,666 (February 28, 2019 - $17,078) of depreciation was capitalized.

During the year ended February 29, 2020, the Company recognized non-cash impairment charges to its single CGU as described in Note 10. As a result, the Company recognized impairment of $8,261,375 allocated to each category of property, plant and equipment on a pro-rata basis.

12. Intangible assets and goodwill

	Balance at February 28, 2019	Amortization	Impairment	Balance at February 29, 2020
	$	$	$	$
Costs				
ACMPR license	6,549,032	165,798	4,966,578	1,416,656
Technology license in process (Note 5)	46,012,157	-	35,800,503	10,211,654
Goodwill	1,322,544	-	1,322,544	-
	53,883,733	**165,798**	**42,089,625**	**11,628,310**

	Balance at February 28, 2018	Additions	Amortization	Balance at February 28, 2019
	$	$	$	$
Costs				
ACMPR license	6,631,931	-	82,889	6,549,032
Technology license in process (Note 5)	-	46,012,157	-	46,012,157
Goodwill	1,322,544	-	-	1,322,544
	7,954,475	**46,012,157**	**82,889**	**53,883,733**

During the year ended February 29, 2020, the Company recognized non-cash impairment charges to its single CGU as described in Note 10. As a result, the Company recognized impairment of $1,322,544 related to goodwill and $40,767,081 related to intangible assets.

13. 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	**$**
Balance, February 28, 2019	-
Additions	660,467
Balance, February 29, 2020	**660,467**
Accumulated Depreciation	**$**
Balance, February 28, 2019	-
Depreciation	168,799
Termination of lease	404,231
Balance, February 29, 2020	**573,050**
Net Book Value	
February 28, 2019	**-**
February 29, 2020	**87,437**

13. Leases (continued)

(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 February 29, 2020.

Contractual obligations	Less than one year	One to five years	Total
	$	$	$
Lease obligations recognized	24,471	72,926	97,397
Short-term leases not recognized[1]	21,600	-	21,600
	46,071	**72,926**	**118,997**

[1] The Company has applied the recognition exemption to short-term leases, which are therefore not recognized in the consolidated statements of financial position.

(c) Supplemental disclosure

The Company used an incremental borrowing rate of 14% to determine the present value of minimum lease payments. For the year ended February 29, 2020, the Company recognized $58,896 of interest expense (February 28, 2019 – nil) on lease obligations and $214,703 (February 28, 2019 – $198,946) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the year ended February 29, 2020, the total cash outflow relating to leases amount to $414,134.

14. Accounts payable and accrued liabilities

	February 29, 2020	February 28, 2019
	$	$
Interest payable	244,522	809,438
Trade payables	1,067,158	658,680
Other payables	367,597	120,577
	1,679,277	**1,588,695**

15. Loans and borrowings

As at February 29, 2020, the Company held the following loans and borrowings:

		February 29, 2020	February 28, 2019
		$	$
Current			
Borrowings	(a)	150,000	150,000
Interest bearing loan with 2546308 Ontario Inc.	(b)	-	3,125,000
Non-interest bearing 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)	1,338,476	1,031,067
Interest bearing loan with 0982244 B.C. Ltd.	(d)	1,157,165	958,372
		2,495,641	1,989,439
		2,691,089	**5,309,887**

15. Loans and borrowings (continued)

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

	(a) $	(b) $	(c) $	(d) $	(e) $	(f) $	(g) $	Total $
February 28, 2018	150,000	3,125,000	49,000	2,600,680	1,990,628	1,581,887	100,000	9,597,195
Accretions	-	-	-	155,687	-	38,092	-	193,779
Modification of loan	-	-	-	(766,928)	-	-	-	(766,928)
Repayment	-	-	(3,552)	-	(1,990,628)	(1,619,979)	(100,000)	(3,714,159)
February 28, 2019	150,000	3,125,000	45,448	1,989,439	-	-	-	5,309,887
Accretions	-	-	-	506,202	-	-	-	506,202
Repayment	-	(3,125,000)	-	-	-	-	-	(3,125,000)
February 29, 2020	**150,000**	**-**	**45,448**	**2,495,641**	**-**	**-**	**-**	**2,691,089**

(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 year ended February 29, 2020, the Company incurred interest expense of $14,512 (February 28, 2019 - $15,781).

(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 year ended February 29, 2020, the Company incurred interest expense of $105,822 (February 28, 2019 - $173,630) prior to settlement. For year ended February 29, 2020, nil (February 28, 2019 – $201,371) of interest was capitalized as part of borrowing costs in construction in progress of THR's production facility.

(c) Non-interest bearing 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 company owned by a previous 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 the effective interest rate method at an effective interest rate of 19.6% on February 28, 2018 when THR was acquired by the Company.

15. Loans and borrowings (continued)

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

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 substantial modification of the loan was recorded.

During the year ended February 29, 2020, the Company incurred interest expense of $175,480 (February 28, 2019 - $81,027), and recorded accretion expense of $307,409 (February 28, 2019 - $47,282). For the year ended February 29, 2020, nil (February 28, 2019 – $114,910) 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 year ended February 29, 2020, the Company incurred interest expense of $150,411 (February 28, 2019 - $69,452) and recorded accretion expense of $198,793 (February 28, 2019 - $108,403). For the year ended February 29, 2020, nil (February 28, 2019 – $73,397) of interest was capitalized as part of borrowing costs to construction in progress of the THR production facility.

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

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

On April 10, 2018, 1053797 B.C. Ltd. forgave $36,687 of interest payable from THR and settled the outstanding loan balance of $1,990,628 and $128,123 of interest payable with Sproutly Inc. for 3,201,513 Sproutly common shares with a deemed value of $0.622 per share. The fair value of the common shares on the date of the assignment was $0.41 per share and the Company recognized a gain on extinguishment of interests and loan of $806,131. Prior to the extinguishment, the Company incurred $8,944 of interest expense.

(f) Interest bearing loan with Bray Limited Partnership

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

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

On April 10, 2018, Bray Limited Partnership forgave $39,919 of interest payable from THR and settled the outstanding loan balance of $1,619,979 and $245,143 of interest payable with Sproutly Inc. for 5,419,992 Sproutly common shares with a deemed value of $0.49 per share. The fair value of the common shares on the date of the assignment was $0.41 per share and the Company recognized a loss on extinguishment of interests and loan of $357,076. Accretion expense for the year prior to extinguishment was $38,092. Prior to the extinguishment, the Company incurred $10,103 of interest expense.

15. Loans and borrowings (continued)

(g) On-demand loan

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

16. Convertible loans payable

	(i) $	(ii) $	(iii) $	(iv) $	Total $
Balance, February 28, 2018	-	-	318,305	660,774	979,079
Issued	9,636,351	-	-	2,659,000	12,295,351
Equity portion	(3,054,594)	-	-	(474,899)	(3,529,493)
Accretion	586,497	-	11,329	187,396	785,588
Conversion	-	-	(330,000)	(3,032,271)	(3,362,271)
Balance, February 28, 2019	**7,168,254**	-	**-**	**-**	**7,168,254**
Issued	-	819,287	-	-	819,287
Accretion	1,577,827	23,672	-	-	1,601,499
Conversion	(1,743,699)	-	-	-	(1,743,699)
Balance, February 29, 2020	**7,002,382**	**842,959**	**-**	**-**	**7,845,341**

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

The loan's embedded conversion feature was determined to meet the definition of a compound financial instrument required to assign a fair value to the debt with any residual amount recorded as equity. As a result, $6,581,757 was recognized as the liability portion for the convertible loan. The borrowing amount represents the debt element of the loan, without the conversion option, recorded at its amortized cost using the effective interest rate of 34.19%. During the period ended February 29, 2020, $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 year ended February 29, 2020, the Company incurred interest expense of $701,995 (February 28, 2019 - $303,377).

(ii) On January 28, 2020, the Company completed a loan for gross proceeds of $1,000,000 (Note 4).

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 and equity separately. As a result, $819,287 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 cost using the effective interest rate of 38.03%. For the year ended February 29, 2020, the Company incurred interest expense of $11,134 (February 28, 2019 – nil).

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

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

As at May 31, 2018, the loan and conversion feature were extended until February 28, 2019. On June 13, 2018 the lender exercised its rights to convert all principal amount outstanding into 1,100,000 units. Each unit consists of one common share and one half (1/2) of a share purchase warrant resulting in an issuance of 1,100,000 pre-reverse acquisition common shares and 550,000 pre-reverse acquisition warrants. As a result, $84,260 was recognized as warrant reserves with the residual balance recorded as share capital. On the date of the reverse acquisition, the conversion of shares and warrants was equivalent to 2,232,312 shares and 1,116,156 warrants of the Company.

16. Convertible loans payable (continued)

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

The conversion feature could be exercised in the following manner:

- Automatic conversion upon reverse acquisition of Stone Ridge Exploration Corp. ("Stone Ridge").
- The holder shall have the right at any time to convert prior to the maturity date on April 10, 2019.
- If the acquisition by Stone Ridge is not completed by July 31, 2018, upon conversion of the debenture, holders will receive an additional 15% of common shares that the holder would otherwise be entitled to upon conversion of the debenture.

On June 18, 2018, holders exercised the rights of conversion and converted all of the principal amount outstanding, including accumulating interest of $79,659, into 10,870,452 pre-reverse acquisition common shares. On the date of the reverse acquisition, the conversion of shares is equivalent to 22,060,219 common shares. Prior to the conversion, the Company incurred $79,758 of interest expense.

17. 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 February 29, 2020, 16,157,655 shares were held in escrow.

(c) Issued and outstanding

(i) During the period ended February 29, 2020, $2,500,000 of convertible debentures were converted to 3,333,332 common shares of the Company (Note 16(i)).

(ii) During the year ended February 29, 2020, 400,500 options (February 28, 2019 – 50,000 options) were exercised for gross proceeds of $137,005 (February 28, 2019 – $10,000). Non-cash compensation of $112,419 (February 28, 2019 – $5,186) was reclassified from reserves to share capital on exercise of these options.

(iii) During the year ended February 29, 2020, 2,233,719 warrants (February 28, 2019 – 4,968,832) were exercised for gross proceeds of $1,584,918 (February 28, 2019 – $910,261). Non-cash compensation of $94,946 (February 28, 2019 - $292,125) was reclassified from reserves to share capital on the exercise of these warrants.

(iv) During the year ended February 29, 2020, 20,247 of Broker Equity Warrants issued as part of the special warrants bought deal financing (Note 6) were exercised for gross proceeds of $13,161 (February 28, 2019 – nil). Non-cash compensation of $5,401 (February 28, 2019 – nil) was reclassified from reserves to share capital on the exercise of these warrants.

17. 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 settle $3,125,000 of outstanding loan and $412,455 of interest (Note 15(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 5).

(vii) On January 17, 2020, 52,394 common shares were issued at a fair value of $9,692 for professional services.

As at February 29, 2020, there were 227,951,248 (February 28, 2019 – 180,336,775) 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	(8,313,499)	$0.67
Balance, February 29, 2020	**14,076,138**	**$0.87**

	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	17,672,526	$0.19
Exercised	(4,968,832)	$0.17
Balance, February 28, 2019	**24,613,232**	**$0.79**

During the year ended February 29, 2020, the Company issued 10,124 warrants as part of the 20,247 Broker Equity Warrant exercise in which the holder received 20,247 Broker Warrant Unit with each unit comprised of one common share and one-half of one common share purchase warrant (Note 6).

The following table summarizes the warrants that remain outstanding as at February 29, 2020:

Exercise Price ($)	Warrants Outstanding (#)	Weighted Average Remaining Contractual Life (years)	Expiry Date
0.17	401,815	0.08	March 28, 2020
0.17	190,001	0.12	April 10, 2020
0.90	13,484,322	0.65	October 24, 2020
0.87	**14,076,138**	**0.63**	

17. Share Capital (continued)

(d) Share purchase warrants (continued)

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

Exercise Price ($)	Warrants Outstanding (#)	Expiry Date
0.22	1,116,156	November 30, 2019
0.74	439,867	December 19, 2019
0.74	676,451	December 20, 2019
0.74	1,116,156	December 21, 2019
0.74	106,542	December 22, 2019
0.74	1,620,456	January 30, 2020
0.74	3,562,567	January 31, 2020
0.17	394,278	March 26, 2020
0.17	463,680	March 28, 2020
0.17	246,829	April 10, 2020
0.90	14,870,250	October 24, 2020
	24,613,232	

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

	2020	2019
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) 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. As at February 29, 2020, 20,247 of Broker Equity Units were exercised and the Company issued 20,247 common shares and 10,124 common share purchase warrants.

(f) Convertible bridge loan units

As part of the Convertible Bridge Loan Financing (Note 4), the principal of the loan can be converted to Units of the Company at an exercise price of $0.19 per Unit. 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. As at February 29, 2020, no Units were exercised.

18. 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
Cancelled	(50,000)	$0.62
Balance, February 29, 2020	**15,589,807**	**$0.34**

During the year ended February 29, 2020, the Company granted 125,000 stock options (February 28, 2019 – 12,921,249) with a fair value of $45,878 (February 28, 2018 - $4,090,769). Of the 125,000 stock options granted, 65,000 were granted to an employee with a vesting period of one-sixth every six months. The other 60,000 was granted to a consultant which vested immediately. The weighted average exercise price of grants during the year was $0.58.

During the year ended February 29,2020, 400,500 stock options (February 28, 2018 – 50,000) were exercised for proceeds of $137,005 (February 28, 2019 - $10,000). The weighted average share price at the dates the options were exercised during the period ended February 29, 2020 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	12,721,249	$0.41
Exercised	(50,000)	$0.20
Balance, February 28, 2019	**15,915,307**	**$0.34**

The following table summarizes the stock options that remain outstanding as at February 29, 2020:

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	980,864
0.01	50,965	April 18, 2027	17,143
0.25	4,058,749	March 25, 2027	2,029,375
0.25	2,500,000	July 6, 2028	125,001
0.60	375,000	July 6, 2028	300,003
0.67	2,800,000	August 1, 2028	1,399,998
0.62	737,500	November 6, 2028	245,830
0.44	1,475,000	December 11, 2023	491,664
0.60	375,000	December 11, 2023	125,000
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
	15,589,807		**8,075,398**

18. Share-based compensation (continued)

For the year ended February 29, 2020, the Company incurred $179,417 (February 28, 2019 - $203,266) of expenses for options granted and vested to consultants for services.

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

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

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:

	2020	2019
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.

19. Related party transactions

(a) Compensation of key management personnel

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

The remuneration of key management personnel during the year ended February 29, 2020 are as follows:

	February 29, 2020	February 28, 2019
	$	$
Management compensation(i)(ii)	1,094,459	794,067
Share-based payments(iii)	981,492	1,135,716
	2,075,951	**1,929,773**

(i) Management compensation consisted of salaries for the Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer, Chief Science Officer and Vice President of Marketing and Sales.

(ii) As of February 29, 2020, the Company owed $110,583 to key management personnel and directors.

(iii) 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 18).

19. Related party transactions

(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 year ended February 29, 2020, 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) Convertible bridge loan

On January 28, 2020, the Company secured a private loan with Infusion Biosciences Inc. for $1,000,000 (Note 4).

20. General and administration

	February 29, 2020	February 28, 2019
	$	$
Professional fees	1,416,131	1,434,666
Office and administration	1,665,535	1,133,278
Wages	2,214,636	1,786,302
Investor relations	964,025	-
	6,260,327	**4,354,246**

21. Finance and other costs

	February 29, 2020	February 28, 2019
	$	$
Accretion expense	2,107,701	979,336
Bank charges	25,719	26,072
Financing fees	-	231,846
Interest expense	1,216,960	664,322
	3,350,380	**1,901,576**

22. 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 Company's lease obligations and convertible bridge loan financing payable, loan payable, contingent consideration payable and due to related party have been measured using Level 3 valuation methods and the following summarizes the key assumptions used to estimate fair value as at February 29, 2020:

22. Financial instruments and risk management (continued)

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.	Incremental borrowing rate – 14% per annum.	As the incremental borrowing rate decreases, the fair value increases.
The liability of the convertible debenture was valued using Company specific interest rates assuming no conversion features existed. The debt component is accreted over the term to maturity as a non-cash interest charge. and the initial equity component and deferred loss are $699,877 and $571,957 respectively.	Market interest rate – 21% per annum.	As the market interest 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 are comprised of 99% 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) Concentration risk

Excluding GST and HST receivables, the Company's accounts receivables are primarily due from two provincial government agencies representing 26% (February 28, 2020 – nil) of total revenue and two corporations representing 74% (February 28, 2020 – nil) of total revenue for year ended February 29, 2020.

(d) Liquidity risk

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

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at February 29, 2020, the Company had current assets of $1,422,127 to settle current liabilities of $9,744,537.

The Company has the following undiscounted loan obligations as at February 29, 2020, which are expected to be payable in the following respective periods:

	$
Less than 1 year	9,445,448
1 to 3 years	3,250,000
	12,695,448

22. Financial instruments and risk management (continued)

(d) Liquidity risk (continued)

Subsequent to the year ended February 29, 2020, the Company is closely monitoring its risks to its operations due to the outbreak of COVID-19. Factors that could impact production, prices or demand of its products that can materially impact cash the Company's cash flow from operations, which could result in a cash shortfall and/or default in financial obligations.

(e) 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 instruments.

23. Capital management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of the components of equity.

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances. The Company is not subject to externally imposed capital requirements.

24. Income tax

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

	February 29, 2020 **$**	**February 28, 2019** **$**
Loss before taxes	(62,748,138)	(13,538,741)
Canadian provincial statutory tax rate	27.00%	27.00%
Expected income tax recovery	(16,941,997)	(3,655,460)
Non-deductible items	501,504	1,567,494
Impairment of intangible asset	13,595,463	-
Settlement of convertible debt	(201,952)	-
Change in tax rates	17,357	6,977
Other	45,936	(398)
Foreign tax rate difference	82,311	4,734
Change in estimates	(72,251)	336,844
Change in deferred tax asset not recognized	1,836,484	829,235
Total income tax recovery	(1,137,144)	(910,574)

24. Income tax (continued)

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

	February 29, 2020	February 28, 2019
	$	$
Non-capital loss carryforwards	2,632,555	1,649,574
Intangible assets	(1,691,557)	(1,735,494)
Lease liability	23,608	-
Right-of-use assets	(23,608)	-
Biological assets	8,762	(44,218)
Property, plant and equipment	(430,563)	42,145
Convertible debt	(379,258)	(1,525,223)
Deferred loss on derivative	(132,686)	-
Loan payable	(424,009)	-
Financing costs	-	248,283
	(416,756)	(1,364,933)
Deferred tax assets not recognized	-	-
Net deferred tax liability	**(416,756)**	**(1,364,993)**

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

	February 29, 2020	February 28, 2019
	$	$
Canada		
Property, plant and equipment	42,554	51,470
Loan receivables	984,461	984,461
Lease liability	9,958	-
Financing costs	1,484,219	387,612
Non-capital losses	9,876,368	4,080,408
	12,397,560	**5,503,951**

	February 29, 2020	February 28, 2019
	$	$
Barbados		
Non-capital losses	630,842	238,298
	630,842	**238,298**

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $9,876,368 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	Sproutly Canada Inc.	Sproutly Inc.	Total
	$	$	$
Expiry			
2040	3,126,001	2,419,081	5,545,082
2039	114,983	1,750,135	1,865,118
2038	-	1,197,508	1,197,508
2037	-	1,268,660	1,268,660
	3,240,984	**6,635,384**	**9,876,368**

24. Income tax (continued)

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $630,842 which may be carried forward to apply against future year income tax for Barbados income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	SSM Partners Inc.
	$
Expiry	
2026	387,839
2025	243,003
	630,842

25. Loss per share

	February 29, 2020	**February 28, 2019**
	$	$
Net loss	61,610,994	12,628,167
Weighted average number of common shares outstanding – basic and diluted	205,112,854	132,161,533
Basic and diluted loss per share	0.30	0.10

26. 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 $21,600.

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.

27. Subsequent events

On April 24, 2020, the Company announced an amendment to the conversion price of its previously issued CD Units as part of the Special Warrants Bought Deal Financing (Note 6). The Company issued $10,750,000 of unsecured convertible debentures as part of CD Units, of which $8,250,000 is currently outstanding and due to mature on October 24, 2020. The convertible debentures were originally convertible by the holders thereof into common shares of the Company at a price of $0.75 per common share. The Company and the debenture holders have approved a new conversion price of $0.105 per share, with such amendment to be made effective the date hereof.

On May 14, 2020, the Company announced a business transformation plan, shifting the Company's resources away from cannabis cultivation to focus on the commercialization of its proprietary APP Technology (the "Business Transformation Plan"). As part of the implementation of the Business Transformation Plan, Infusion Biosciences Inc. ("Infusion Biosciences") committed to further investment into the Company and to provide additional human capital resources to execute on the new plan.

27. Subsequent events

Key elements of the plan include the following:

- A substantial change to the Company's business strategy to focus on its proprietary APP Technology for Cannabis 2.0 opportunities and away from the capital-intensive cannabis cultivation business
- Appointment of Dr. Arup Sen, CEO of Infusion Biosciences, Chief Science Officer of Sproutly Canada Inc. and inventor of the APP Technology, is appointed as CEO of Sproutly
- The Company intends to explore strategic alternatives with respect to its cultivation facility that is a Licensed Producer under the Cannabis Act of Health Canada
- A commitment to the Company for additional capital investment from Infusion Biosciences, owner of the APP technology and the largest shareholder of Sproutly
- Continuation of discussions with Moosehead Breweries to restructure the previously announced joint venture agreement to focus on the sale of Infuz2O, eliminate any capital investment requirement by Sproutly, and allowing broad commercialization of the APP technology via formulation and sale of unique custom ingredients for cannabis products
- The Company will implement cost-cutting initiatives to better align its expenses with current market conditions, including a reduction of staff by approximately 75%

The Company's Business Transformation Plan was created while considering the operational and financial uncertainties of the business and industry during COVID-19.

On June 22, 2020, both Justin Kates and Michael Bellas resigned from the Board of Directors.

On July 6, 2020, the Company announced that Gregg Orr resigned from the Board of Directors and was replaced by the appointment of Sproutly Canada's CFO, Craig Loverock, as a Director, effective June 30, 2020. In addition, the Company has appointed Paul Marcellino to the Board of Directors, effective July 6, 2020, subject to regulatory approval.

On July 30, 2020 the Company announced it entered into a second supplemental indenture dated July 23, 2020 (the "Second Supplemental Indenture") between the Company and TSX Trust Company, as trustee, which amends the terms of its convertible debenture indenture dated October 24, 2018 (the "Original Indenture"), as amended by the first supplemental indenture dated April 24, 2020 (the "First Supplemental Indenture", and together with the Original Indenture, the "Indenture") providing for the issue of 8.0% senior unsecured convertible debentures in the aggregate principal amount of up to $10,750,000 (the "Debentures"). Pursuant to the Second Supplemental Indenture, the Indenture was modified to provide for certain payments of principal and interest under the Indenture to be settled by the Company in cash or common shares of the Company, subject to the prior written approval of Debenture holders holding more than 20% of the outstanding Debentures. As of July 30, 2020, Debentures in the principal amount of $5,239,000 were currently outstanding and due to mature on October 24, 2020. The Debentures were originally convertible by the holders thereof into common shares of the Company at a price of $0.75 per common share. Pursuant to the First Supplement Indenture, the Company and the Debenture holders approved an amendment to the conversion price to $0.105 per share.

On August 27, 2020, the Company announced it has secured the Convertible Debentures of $855,000 from Infusion Biosciences Inc. (the "Lender"), a related party of the Company (the "Debt Financing"). The loan carries an interest rate of 15% per annum accruing and compounding monthly, payable on maturity on or before October 24, 2020 (the "Maturity Date").

The loan is evidenced by a secured convertible debenture (the "Convertible Debenture") that provides the Lender with the right to convert the principal and accrued interest into units of the Company (the "Debt Units") at a conversion price of $0.07 per Debt Unit. Each Debt 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 (a "Warrant Share") at an exercise price equal to $0.08 for a period of two years from date of issuance.

27. Subsequent events (continued)

As a condition of the Loan, the Company agreed to amend terms included in the $1 million convertible bridge loan financing (Note 4) from the Lender ("the Original Loan"), which was previously announced on January 28, 2020. The Original Loan carried an interest rate of 10% per annum accruing and compounding monthly, payable on the maturity date. The Original Loan is evidenced by a secured convertible debenture that provided the Lender with the right to convert the principal of the Original Loan into units (the "Original Units") of the Company at a conversion price of $0.19 per Unit. As a result of the amendment, the interest rate has been amended to 15% effective as of the date of the amendment and the conversion price has been reduced to $0.07 per Unit. Each Unit consists of one Common Share and one Warrant, with each Warrant entitling the Lender to acquire one Common Share at an exercise price equal to $0.08 for a period of two years from date of issuance.

The Company also announced a non-brokered private placement of 1,500,000 units of the Company (the "Private Equity Units"), at a price of $0.07 per Private Equity Unit to raise gross proceeds of $105,000 (the "Private Placement"). Each Equity Unit consists of one Common Share and one Warrant, with each Warrant entitling the holder to acquire one Warrant Share at an exercise price equal to $0.08 for a period of two years from date of issuance.

In addition, the Company has completed a settlement of the unsecured term loan for the principal amount of $150,000 (Note 5(a)) with interest in the amount of $180,000 through the issuance of 1,800,000 Common Shares at a price of $0.10 per share.