Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended May 31, 2020 and May 31, 2019
(In Canadian Dollars)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

The accompanying unaudited condensed interim consolidated financial statements of Sproutly Canada Inc. for the three months ended May 31, 2020 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Financial Position
As at May 31, 2020 and May 31, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	May 31, 2020	February 29, 2020
		$	$
Assets			
Current Assets			
Cash		151,091	32,287
Accounts receivable	6	145,729	258,211
Biological assets	7	-	10,401
Inventories	8	602,068	475,665
Prepaid and other assets		141,202	154,134
Deferred loss	4	301,465	491,429
		1,341,555	1,422,127
Non-Current Assets			
Property, plant and equipment	9	3,436,908	3,455,005
Right-of-use assets	11	82,393	87,437
Intangible assets and goodwill	10	11,619,111	11,628,310
Total assets		**16,479,967**	**16,592,879**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12, 17	2,368,990	1,679,277
Lease obligations	11	24,000	24,471
Loans and borrowings	13	470,448	195,448
Convertible loan payable	14	5,634,405	7,845,341
		8,497,843	9,744,537
Non-Current Liabilities			
Lease obligations	11	69,660	72,926
Loans and borrowings	13	2,616,821	2,495,641
Deferred tax liability		416,756	416,756
Total liabilities		**11,601,080**	**12,729,860**
Equity			
Share capital	15	76,006,023	73,188,162
Reserves		7,779,926	7,584,621
Accumulated deficit		(78,907,062)	(76,909,764)
Total equity		**4,878,887**	**3,863,019**
Total liabilities and equity		**16,479,967**	**16,592,879**

Nature and continuance of operations (Note 1)
Commitments (Note 22)
Subsequent events (Note 23)

Approved on behalf of the board September 28, 2020

"Arup Sen" , Director

"Con Constandis" , Director

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended May 31, 2020 and May 31, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31, 2020	2019
		$	$
Revenue		25,875	-
Excise duties		(12,150)	-
Net revenue		13,725	-
Cost of sales	8	18,284	-
Gross loss before fair value adjustments of biological assets		(4,559)	-
Realized fair value adjustments on inventory sold	8	32,677	-
Unrealized loss (gain) on changes in fair value of biological assets	7	1,008	(1,018,644)
Gross profit (loss)		(38,244)	1,018,644
Operating Expenses			
General and administration	18	513,517	2,148,893
Marketing		7,358	118,102
Depreciation and amortization	9, 10, 11	28,935	131,970
Share-based payments	16	319,269	491,150
Total operating expenses		869,079	2,890,115
Loss from Operations		907,323	1,871,471
Other Expenses (Income)			
Other expense (income)		43,850	(19,241)
Finance and other costs	19	855,049	889,959
Foreign exchange		1,112	1,289
Loss on settlement on contingent consideration	5	-	296,965
Changes in fair value of contingent consideration	5	-	5,198
Loss on convertible bridge loan financing	4	189,964	-
		1,089,975	1,174,170
Net loss and comprehensive loss for the period		1,997,298	3,045,641
Basic and diluted loss per share		(0.01)	(0.02)
Weighted average number of shares outstanding			
Basic and diluted		235,336,444	182,519,072

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Changes in Equity
For the three months ended May 31, 2020 and 2019
(Unaudited – Expressed in Canadian Dollars)

		Share Capital		Reserves					
	Notes	Common Shares	Amount	Share-Based Compensation	Warrants	Convertible Notes Reserves	Total Reserves	Accumulated Deficit	Total
		#	$	$	$	$	$	$	$
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
Net loss and comprehensive loss for the period		-	-	-	-	-	-	(1,997,298)	(1,997,298)
Conversion of notes (net of deferred tax)	14(i), 15(c)	28,676,189	2,817,861	-	-	(140,668)	(140,668)	-	2,677,193
Share-based compensation	16	-	-	335,973	-	-	335,973	-	335,973
Balance, May 31, 2020		256,627,437	76,006,023	4,247,389	2,896,325	636,212	7,779,926	(78,907,062)	4,878,887

		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 period		-	-	-	-	-	-	-	(3,045,641)	(3,045,641)
Conversion of notes (net of deferred tax)	14(i)	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Exercise of options	16	350,000	238,668	-	(102,168)	-	-	(102,168)	-	136,500
Exercise of warrants	15(d)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Exercise of Broker Equity Units	15(e)	20,247	18,562	-	-	(5,401)	-	(5,401)	-	13,161
Share-based compensation	16	-	-	-	573,076	-	-	573,076	-	573,076
Balance, May 31, 2019		186,274,073	52,424,585	17,300,007	2,808,598	2,896,325	265,969	23,270,899	(18,344,413)	57,351,073

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended May 31, 2020 and 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31, 2020	2019
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(1,997,298)	(3,045,641)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold	8	32,677	-
Unrealized loss (gain) on changes in fair value of biological assets	7	1,008	(1,018,644)
Depreciation of property, plant and equipment	9, 11	19,736	90,520
Amortization of intangible asset	10	9,199	41,450
Share-based compensation	16	335,973	573,076
Accretion expense	19	587,438	502,749
Loss on settlement of contingent consideration	5, 17	-	296,965
Interest expense on lease obligations	11	3,476	1,638
Changes in fair value of contingent consideration	5	-	5,198
Loss on convertible bridge loan financing	4	189,964	-
Change in non-cash operating working capital			
Trade receivables		(15,003)	-
GST receivables		52,485	91,759
Other receivables		75,000	(68,499)
Biological assets		14,579	(30,787)
Inventories		(158,711)	(256,106)
Prepaid expenses		12,932	499,120
Accounts payable and accrued liabilities		689,713	118,006
		(146,832)	(2,199,196)
Proceeds from (repayment of) Financing Activities			
Lease obligations	11	(7,214)	(168,488)
Related party loan	13(b)	130,000	-
On-demand loan	13(c)	105,000	-
Line of credit	13(d)	40,000	-
Shares issued for option exercise	17(c)(ii)	-	136,500
Shares issued from warrant exercises	17(c)(iii)	-	1,584,918
Shares issued from Broker Equity Units exercises	17(c)(iv)	-	13,161
		267,786	1,566,091
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration	5	-	(4,975,000)
Purchase of property, plant and equipment		(2,150)	(181,524)
		(2,150)	(5,156,524)
Net change in cash		118,804	(5,789,629)
Cash, beginning of period		32,287	9,644,015
Cash, ending of period		**151,091**	**3,854,386**
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		81,027	145,743

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), was incorporated on January 26, 2012 under the British Columbia Business Corporations Act. On July 6, 2018, the Company acquired Sproutly Inc. ("Sproutly") through a reverse acquisition transaction. The historical operations, assets, and liabilities of Sproutly are included as the comparative figures, which is deemed to be the continuing entity for financial reporting purposes. Sproutly was incorporated on January 17, 2017 under the British Columbia Business Corporation Act. The registered office is located at 10th floor – 595 Howe Street, Vancouver, British Columbia, V6C 2T5. On July 9, 2018, the Company began trading on the Canadian Securities Exchange ("the Exchange") under the symbol "SPR". The Company is also quoted on the Frankfurt, Berlin and Munich exchanges under the symbol "38G", and on the OTCQB Venture Marketplace under the symbol "SRUTF".

The Company intends to identify and evaluate potential business opportunities in the medicinal and recreational cannabis industry. On February 28, 2018, Sproutly acquired all of the issued and outstanding common shares of Toronto Herbal Remedies Inc. ("THR"). THR was incorporated on January 13, 2013 under the Ontario Business Corporation Act. On June 8, 2018, Health Canada granted THR a cultivation license to produce and sell medical marijuana under the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On March 29, 2019, Health Canada granted THR a processing license to produce cannabis oil and related products and will allow the Company to conduct certain research and development activities.

On July 31, 2018, the Company acquired all of the issued and outstanding common shares of Infusion Biosciences Canada Inc. ("IBS Canada") and SSM Partners Inc. ("SSM Partners") described in Note 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 May 31, 2020 and February 29, 2020.

2. Basis of presentation

a) Interim Financial Reporting

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these Condensed Interim Consolidated Financial Statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended February 29, 2020.

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended February 29, 2020 which are made available on SEDAR at www.sedar.com.

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

b) Going concern

These condensed interim 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 May 31, 2020, the Company had working capital deficit of $7,156,288 (February 29, 2020 - $8,322,410) and an accumulated deficit of $78,907,062 (February 29, 2020 - $76,909,764). During the three months ended May 31, 2020, the Company used cash in operating activities of $146,833 (three months ended May 31, 2019 - $2,199,196), resulting primarily from the net loss and comprehensive loss of $1,997,298 (three months ended May 31, 2019 - $3,045,641) offset by items not affecting cash such as depreciation, amortization and stock based compensation of $1,850,465 (three months ended May 31, 2019 - $846,445). 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.

2. Basis of presentation (continued)

b) Going concern (continued)

The Company may need to reschedule its current debt obligations or obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that the existing debt obligations will be rescheduled or that additional funding will be available to the Company, or, if available, that this financing will be on acceptable terms. If existing debt obligations are not rescheduled or 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.

These condensed interim 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 financial statements should such events impair the Company's ability to continue as a going concern.

c) Basis of consolidation

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

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

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

d) Basis of measurement

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

e) Functional and presentation of foreign currency

The condensed interim consolidated financial statements are presented in Canadian dollars as this is the currency of the primary economic environment in which the Company operates. The functional currencies of the Company and its subsidiaries are as follows:

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

f) 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.

2. Basis of presentation (continued)

g) Significant Accounting Judgements, Estimates and Assumptions

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

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

Significant judgements, estimates and assumptions within these unaudited condensed interim consolidated financial statements, unless stated herein, remain the same as those applied to the annual consolidated financial statements for the year ended February 28, 2020, with the exception of:

COVID-19 estimation uncertainty

The Company continues to monitor the evolution of the COVID-19 pandemic. The extent to which the COVID-19 pandemic may impact the Company's business and activities will depend on future developments which remain highly uncertain and cannot be predicted with confidence, such as the spread and severity of the disease, the duration of the outbreak including any possible resurgence, and actions taken by authorities to control the spread of the virus, the impact of the pandemic on spending, and the ability or willingness of suppliers and vendors to provide products and services.

Any of these developments, and others, could have a material adverse effect on the Company's business, affairs, operations, results of operations, financial condition, liquidity, availability of credit and foreign exchange exposure. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company's financial statements could change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of non-current assets and a change in the expected credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts on its business.

3. Significant accounting policies

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2020 annual consolidated financial statements and as described in these condensed interim consolidated financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

h) Government grants

The Company applied for and received government grants under the Canadian Emergency Wage Subsidy ("CEWS") provided by the Government of Canada as a result of the COVID-19 pandemic. The Company made an accounting policy choice under IAS 20 - Government Grants to record and present the grants net against the associated salary expenses for which it was subsidizing.

(Unaudited – Expressed in Canadian Dollars)

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%.

During the year period ended May 31, 2020, the Company incurred interest of $25,490 (May 31, 2019 – nil) and recorded accretion expense of $56,410 (May 31, 2019 – nil).

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 calculate 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 period ended May 31, 2020, the company recognized a loss on convertible bridge loan financing of $189,964 (May 31, 2019 – nil).

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.

(Unaudited – Expressed in Canadian Dollars)

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

The sellers are also entitled to an additional consideration of $4,975,000 in cash and 36,857,675 Sproutly Canada common shares if IBS Canada and SSM Partners are able to complete the milestones, as per the earn-out provisions of the agreement, within three years from the acquisition date. Earn-out provisions include the completion of a specified amount of cannabinoids using the APP technology and the Company obtaining analytical results of such cannabinoids that meet regulatory requirements for commercial sale of products within a specified jurisdiction. For the cash contingent consideration, if the Company is unable to settle the cash payment within 12 months from completion of the earn-out provision, the seller of SSM Partners has the discretion to settle the remaining balance with Sproutly Canada common shares determined by the lower of a 25% discount to the 10 day volume weighted average trading price or $0.25 per share. Both the deferred cash and equity contingent consideration amounts were 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.

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 May 31, 2020, the Company recognized changes in fair value of contingent consideration of nil (May 31, 2019 - $5,198) and a loss on settlement of contingent consideration of nil (May 31, 2019 - $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	-
As at May 31, 2020	-

(Unaudited – Expressed in Canadian Dollars)

6. Accounts receivable

	May 31, 2020	February 29, 2020
	$	$
Trade receivables	15,286	283
GST and HST receivable	94,873	147,358
Other receivable	35,570	110,570
	145,729	**258,211**

7. Biological assets

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

	$
Balance at February 29, 2020	10,401
Production costs prior to harvest capitalized	42,454
Biological assets disposed prior to harvest	(32,546)
Changes in fair value less cost to sell due to biological transformation	(1,008)
Transferred to inventory upon harvest	(19,301)
Balance at May 31, 2020	-

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).

As of May 31, 2020, the Company fully harvested all of its biological assets.

8. Inventories

The following is a breakdown of inventory as at May 31, 2020:

	May 31, 2020	February 29, 2020
	$	$
Dry cannabis	567,549	416,125
Supplies and consumables	34,519	59,540
	602,068	**475,665**

(Unaudited – Expressed in Canadian Dollars)

8. Inventories (continued)

For the three months ended May 31, 2020, the Company capitalized $144,814 of production costs (May 31, 2019 – $8,290) related to post-harvest activities and held 554,093 grams of dry cannabis and 191,279 grams of trim (February 29, 2020 – 502,770 grams of dry cannabis and 175,498 grams of trim).

During the three months ended May 31, 2020, the Company recognized cost of goods sold of $18,284 (May 31, 2019 - nil) and expenses related to changes in fair value of inventory sold of $32,677 (May 31, 2019 – nil).

9. Property, plant and equipment

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Costs	**$**	**$**	**$**	**$**	**$**	**$**
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
Additions	-	-	-	-	2,150	2,150
Disposal	-	-	-	(2,021)	-	(2,021)
Balance, May 31, 2020	**1,098,550**	**10,229,385**	**87,423**	**-**	**838,378**	**12,253,736**

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated depreciation and impairment	**$**	**$**	**$**	**$**	**$**	**$**
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
Depreciation	-	14,438	1,499	-	4,310	20,247
Disposal	-	-	-	(2,021)	-	(2,021)
Balance, May 31, 2020	**-**	**8,063,060**	**79,019**	**-**	**674,749**	**8,816,828**
Net Book Value						
February 29, 2020	**1,098,550**	**2,180,763**	**9,903**	**-**	**165,789**	**3,455,005**
May 31, 2020	**1,098,550**	**2,166,325**	**8,404**	**-**	**163,629**	**3,436,908**

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.

Depreciation related to building and improvements, and production equipment was capitalized as part of production costs within biological assets and dry cannabis inventory. During the three months ended May 31, 2020, $5,556 (May 31, 2019 - $28,223) of depreciation was capitalized.

During the year ended February 29, 2020, the Company recognized non-cash impairment charges to its single CGU. 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.

10. Intangible assets and goodwill

	ACMR License	Technology License in Process	Goodwill	Total
Costs	**$**	**$**	**$**	**$**
Balance, February 28, 2019	6,631,931	46,012,157	1,322,544	53,883,733
Additions	-	-	-	-
Balance, May 31, 2019	6,631,931	46,012,157	1,322,544	53,883,733
Additions	-	-	-	-
Balance, February 29, 2020	6,631,931	46,012,157	1,322,544	53,883,733
Additions	-	-	-	-
Balance, May 31, 2020	**6,631,931**	**46,012,157**	**1,322,544**	**53,883,733**

(Unaudited – Expressed in Canadian Dollars)

10. Intangible assets and goodwill (continued)

	ACMR License	Technology License in Process	Goodwill	Total
Accumulated amortization and impairment	**$**	**$**	**$**	**$**
Balance, February 28, 2019	82,899	-	-	82,899
Amortization	41,450	-	-	41,450
Balance, May 31, 2019	124,349	-	-	124,349
Amortization	124,348	-	-	124,348
Impairment	4,966,578	35,800,503	1,322,544	42,089,625
Balance, February 29, 2020	5,215,275	35,800,503	1,322,544	42,338,322
Additions	9,199	-	-	9,199
Balance, May 31, 2020	**5,224,474**	**35,800,503**	**1,322,544**	**42,347,521**
Net book value, May 31, 2019	**6,507,582**	**46,102,157**	**1,322,544**	**53,842,283**
Net book value, May 31, 2020	**1,407,457**	**10,211,654**	**-**	**11,619,111**

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

11. Leases

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

(a) Right-of-use assets

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

Costs	**$**
Balance, February 28, 2019	-
Additions	660,467
Disposal	(557,896)
Balance, February 29, 2020	102,571
Additions	**-**
Balance, May 31, 2020	102,571
Accumulated Depreciation	**$**
Balance, February 28, 2019	-
Depreciation	168,799
Termination of lease	404,231
Disposal	(557,896)
Balance, February 29, 2020	15,134
Depreciation	5,044
Balance, May 31, 2020	20,178
February 29, 2020	**87,437**
May 31, 2020	**82,393**

(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 May 31, 2020.

Contractual obligations	**Less than one year**	**One to five years**	**Total**
	$	**$**	**$**
Lease obligations recognized	24,000	69,660	93,660
Short-term leases not recognized(1)	6,000	-	6,000
	30,000	**69,660**	**99,660**

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

(Unaudited – Expressed in Canadian Dollars)

11. Leases (continued)

(c) Supplemental disclosure

The Company used an incremental borrowing rate of 14% to determine the present value of minimum lease payments. For the period ended May 31, 2020, the Company recognized $3,476 of interest expense (May 31, 2019 – $1,638) on lease obligations and $33,067 (May 31, 2019 – $48,003) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the three months ended May 31, 2020, the total cash outflow relating to leases amount to $40,281.

12. Accounts payable and accrued liabilities

	May 31, 2020	February 29, 2020
	$	$
Interest payable	426,370	244,522
Trade payables	1,342,447	1,067,158
Other payables	600,173	367,597
	2,368,990	**1,679,277**

13. Loans and borrowings

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

		May 31, 2020	February 29, 2020
		$	$
Current			
Borrowings	(a)	150,000	150,000
Related party loan	(b)	130,000	-
On-demand loan	(c)	105,000	-
Line of credit	(d)	40,000	
Non-interest bearing loan with 1023409 B.C. Ltd.	(e)	45,448	45,448
		470,448	195,448
Long-term			
Mortgage payable with 0982244 B.C. Ltd.	(f)	1,404,463	1,338,476
Interest bearing loan with 0982244 B.C. Ltd.	(f)	1,212,358	1,157,165
		2,616,821	2,495,641
		3,087,269	**2,691,089**

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

	(a) $	(b) $	(c) $	(d)	(e) $	(f) $	(g) $	Total $
February 28, 2019	150,000	-	-	-	45,448	1,989,439	3,125,000	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
Issued	-	130,000	105,000	40,000	-	-	-	275,000
Accretions	-	-	-	-	-	121,180	-	121,180
May 31, 2020	**150,000**	**130,000**	**105,000**	**40,000**	**45,448**	**2,616,821**	**-**	**3,087,269**

(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.

On May 7, 2020, the lender assigned the loan to another third party with no changes to the terms of the original loan agreement.

During the three months ended May 31, 2020, the Company incurred interest expense of $3,863 (May 31, 2019 - $3,822).

13. Loans and borrowings (continued)

(b) Related party loan

During the period ended May 31, 2020, the Company received a related party loan from Infusion Biosciences Inc. for $130,000. The loan is unsecured, bears no interest and is due on demand.

(c) On-demand loan

During the period ended May 31, 2020, the Company received an unsecured and interest-free loan of $105,000 from a third party that is due on demand.

(d) Line of credit

During the period ended May 31, 2020, the Company drew $40,000 from its interest free line of credit as part of the Canada Emergency Business Account funded by the Government of Canada. On January 1, 2021, any outstanding balance will be converted to a non-revolving term loan that is interest free until January 1, 2023, which a 5% interest rate per annum will be applied and the loan matures on December 31, 2025. If the Company repays 75% of its outstanding loan before December 31, 2020, the remaining 25% will be forgiven.

(e) 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 is due on demand.

(f) 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.

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 three months ended May 31, 2020, the Company incurred interest expense of $44,110 (May 31, 2019 - $44,110), and recorded accretion expense of $65,987 (May 31, 2019 - $12,758).

The $1,500,000 portion of the original loan was determined to be below fair market value, an estimate was completed to determine a third party interest rate of 21.10%. The loan was initially present valued and subsequently recorded at amortized cost using the effective interest rate.

On August 7, 2018, THR and the lender amended the loan agreement by reducing the maturity date from February 28, 2023 to June 24, 2021 and changed the interest rate to 10.0% per annum. Changes in terms were deemed to not represent a substantial modification of the original financial liability. A gain on modification of $26,620 was recognized based on the amendment of the loan.

During the three months ended May 31, 2020, the Company incurred interest expense of $37,397 (May 31, 2019 - $37,808) and recorded accretion expense of $55,193 (May 31, 2020 - $40,761).

(Unaudited – Expressed in Canadian Dollars)

13. Loans and borrowings (continued)

(g) Interest bearing loan with 2546308 Ontario Inc.

On November 22, 2016, THR entered into a secured, fixed interest rate of 8% per annum loan for the principal amount of $3,500,000 with 2546308 Ontario Inc., an unrelated third party in which THR drew $3,125,000. The loan is secured by a mortgage with priority of repayment with a convertible feature to convert $131,362 of the loan equivalent to 23.4% of issued and outstanding common shares in THR. The conversion option expired on April 30, 2017 and the interest rate increased to simple 12% per annum and is due on demand.

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

During the three months ended May 31, 2019, the Company incurred interest expense of $94,521.

14. Convertible loans payable

	(i) $	(ii) $	Total $
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**
Accretion	409,848	56,410	466,258
Conversion	(2,677,194)	-	(2,677,194)
Balance, May 31, 2020	**4,735,036**	**899,369**	**5,634,405**

(i) On October 24, 2018, the Company completed a Special Warrants Bought Deal Financing for gross proceeds of $20,760,000 with $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 year ended February 29, 2020, $2,500,000 of convertible debentures were converted to 3,333,332 common shares at a conversion price of $0.75 with a combined fair value of $1,743,699.

On April 24, 2020, the Company and the debenture holders approved a new conversion price of $0.105 per share. For the period ended May 31, 2020, $3,011,000 of convertible debentures were converted to 28,676,189 common shares of the Company with a combined fair value of $2,677,193.

During the three months ended May 31, 2020, the Company incurred interest expense of $154,656 (May 31, 2019 - $201,494) and accretion expense of $409,848 (May 31, 2019 - $449,230).

(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 three months ended May 31, 2020, the Company incurred interest expense of $25,490 (May 31, 2019 – nil) and accretion expense of $56,410 (May 31, 2019 – nil).

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital

(a) Authorized

Unlimited number of common shares without par value

(b) Escrow Shares

Pursuant to an escrow agreement dated July 6, 2018, 36,255,898 common shares of the Company were deposited into escrow with respect to the reverse acquisition. Under the escrow agreement, 10% of the escrowed common shares were released on November 6, 2018 and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of May 31, 2020, 16,157,655 shares were held in escrow.

(c) Issued and outstanding

During the period ended May 31, 2020, $3,011,000 of convertible debentures were converted to 28,676,189 common shares of the Company (Note 14(i)).

As at May 31, 2020, there were 256,627,437 (May 31, 2019 – 186,274,073) 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 29, 2020	14,076,138	$0.87
Expired	(591,816)	$0.14
Balance, May 31, 2020	**13,484,322**	**$0.90**

	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 28, 2020	**14,076,138**	**$0.87**

The following table summarizes the warrants that remain outstanding as at May 31, 2020:

Exercise Price ($)	Warrants Outstanding (#)	Weighted Average Remaining Contractual Life (years)	Expiry Date
0.90	13,484,322	0.40	October 24, 2020

The following table summarizes the warrants that remain outstanding as at May 31, 2019:

Exercise Price ($)	Warrants Outstanding (#)	Expiry Date
0.22	1,116,156	November 30, 2019
0.74	439,867	December 19, 2019
0.74	676,451	December 20, 2019
0.74	1,116,156	December 21, 2019
0.74	106,542	December 22, 2019
0.74	1,620,456	January 30, 2020
0.74	3,237,871	January 31, 2020
0.17	401,815	March 28, 2020
0.17	190,001	April 10, 2020
0.90	13,484,322	October 24, 2020
	22,389,637	

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(d) Share purchase warrants (continued)

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)	No warrants were issued	$0.66
Volatility	No warrants were issued	71.19%
Expected life	No warrants were issued	2 years
Risk-free rate	No warrants were issued	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, each Equity Special Warrant Units when exercised entitles the holder of one-half common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized value of nil in warrant reserves related to the share purchase warrants. On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised and 7,700,000 of share purchase warrants were issued.

For the issuance of Equity Special Warrant Units, the Company has granted brokers 1,078,000 Broker Equity Special Warrants. Each Broker Equity Warrants entitles the holder to purchase a Broker Equity Unit at an exercise price of $0.65 per unit, expiring on October 24, 2020. Each Broker Equity Unit when exercised, converts to one common share and one-half of one common share purchase warrant with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized $108,930 in warrant reserves related to the share purchase warrants. For the period ended May 31, 2020, nil (May 31, 2019 – 20,247) Broker Equity Units were exercised. For the period ended May 31, 2019, 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 May 31, 2020 (May 31, 2019 – nil), no Units were exercised.

16. Share-based compensation

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the shareholders which complies with the rules and policies of the Canadian Securities Exchange. Under the Plan, the aggregate number of common shares which may be subject to option at any time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of 10 years, and the term will be reduced to one year following the date of death of the Optionee. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately expire. All options vest when granted unless otherwise specified by the Board of Directors. Options granted to persons providing investor relations activities to the Company must vest in stages over at least one-year period and no more than one-quarter of such options may be vested in any three month period.

(Unaudited – Expressed in Canadian Dollars)

16. Share-based compensation (continued)

	Stock Options #	Weighted Average Exercise Price $
Balance, February 29, 2020	15,589,807	$0.34
Granted	5,400,000	$0.10
Expired	(150,000)	$0.10
Balance, May 31, 2020	**20,839,807**	**$0.28**

During the three months ended May 31, 2020, the Company granted 5,400,000 stock options (May 31, 2019 – 95,000) with a fair value of $310,752 (May 31, 2019 - $41,655). Of the 5,400,000 stock options granted, 2,250,000 were granted to employees with a vesting period of one-half every three months. The other 3,150,000 was granted to employees with a vesting period of one-sixth every six months. The weighted average exercise price of grants during the period was $0.10.

During the period ended May 31, 2020, nil stock options (May 31, 2019 – 350,000) were exercised for proceeds of nil (May 31, 2019 - $136,500). The weighted average share price at the dates the options were exercised during the period ended May 31, 2019 was $0.86 per share.

	Stock Options #	Weighted Average Exercise Price $
Balance, February 28, 2019	15,915,307	$0.34
Granted	95,000	$0.68
Exercised	(350,000)	$0.39
Balance, May 31, 2019	**15,660,307**	**$0.34**

The following table summarizes the stock options that remain outstanding as at May 31, 2020:

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
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	2,705,830
0.25	2,500,000	July 6, 2028	1,250,001
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	368,745
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	21,666
0.27	30,000	November 5, 2024	30,000
0.10	2,250,000	March 17, 2025	-
0.10	3,150,000	March 17, 2025	-
	20,839,807		**8,735,601**

For the three months ended May 31, 2020, the Company incurred $16,704 (May 31, 2019 - $81,926) of expenses for options granted and vested to consultants for services.

(Unaudited – Expressed in Canadian Dollars)

16. Share-based compensation (continued)

The following table summarizes the stock options that remain outstanding as at May 31, 2019:

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
0.02	150,000	May 5, 2020	150,000
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	338,228
0.01	101,465	April 18, 2027	33,822
0.25	4,058,749	March 25, 2027	1,352,915
0.25	2,500,000	July 6, 2028	416,667
0.60	375,000	July 6, 2028	100,001
0.67	2,800,000	August 1, 2028	466,666
0.62	787,500	November 6, 2028	131,248
0.44	1,475,000	December 11, 2023	-
0.60	375,000	December 11, 2023	-
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	-
	15,660,307		**4,034,234**

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)	$0.10	$0.41-$0.80
Volatility	88.68%	97.10% to 100.00%
Expected life	2.75 years	3.0 to 3.5 years
Dividend yield	0%	0%
Risk-free rate	0.78%	1.43% to 1.49%

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

17. Related party transactions

(a) Compensation of key management personnel

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

The remuneration of key management personnel during the period ended May 31, 2020 are as follows:

	May 31, 2020	May 31, 2019
	$	$
Management compensation(i)(ii)	107,169	325,974
Share-based payments(iii)	204,834	326,346
	312,003	**652,320**

(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 May 31, 2020, the Company owed $215,133 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 16).

(Unaudited – Expressed in Canadian Dollars)

17. Related party transactions

(b) Related party loan

During the month of March 2020, the Company received a related party loan from Infusion Biosciences Inc. for $130,000. The loan is unsecured, bears no interest and due on demand (Note 13(b)).

(c) Convertible bridge loan

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

(d) Contingent consideration payable

The Company settled a contingent consideration payable to a related party on March 20, 2019 of $4,975,000 as part of the acquisition of SSM Partners. For the period ended May 31, 2020, the Company recognized a change in fair value of contingent consideration of nil (May 31, 2019 - $5,198) and a loss on settlement of contingent consideration of nil (May 31, 2019 - $296,965).

18. General and administration

	May 31, 2020	May 31, 2019
	$	$
Professional fees	82,415	380,831
Office and administration	241,153	437,256
Wages	170,340	695,273
Investor relations	19,609	635,533
	513,517	**2,148,893**

19. Finance and other costs

	May 31, 2020	May 31, 2019
	$	$
Accretion expense	587,438	502,749
Bank charges	1,284	3,818
Interest expense	266,327	383,392
	855,049	**889,959**

20. Financial instruments and risk management

(a) Fair values of financial instruments

Fair value measurements and disclosures use the following hierarchy definitions in determining its classifications:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs

(Unaudited – Expressed in Canadian Dollars)

20. Financial instruments and risk management

Cash, trade 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 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 May 31, 2020:

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 $82,393.	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 86% GST and HST. The Company has assessed its expected credit loss 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 for the period ended May 31, 2020 are primarily due from two provincial government agencies representing 100% (May 31, 2019 – nil) of total revenue.

(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 May 31, 2020, the Company had current assets of $1,341,555 to settle current liabilities of $8,497,843.

The Company has the following undiscounted loan obligations as at May 31, 2020, which are expected to be payable in the following respective periods:

	$
Less than 1 year	6,709,448
1 to 3 years	3,250,000
	9,959,448

20. Financial instruments and risk management (continued)

(d) Liquidity risk (continued)

Subsequent to the three months ended May 31, 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.

21. 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.

22. Commitments

On February 3, 2020, the Company entered into a six month building lease agreement starting on March 1, 2020 with monthly payments of $2,000, expiring on August 30, 2020. Future lease payments of the remaining lease are $6,000.

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.

23. Subsequent events

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.

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.

23. Subsequent events (continued)

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"). A part of the $855,000 in proceeds is made up of the $130,000 related party loan that was received during the period ended May 31, 2020 (Note 13(b)).

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.

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") that was received during the period ended May 31, 2020 (Note 13(c)). 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.

On September 10, 2020, the Company announced that it intended to settle an aggregate of $182,340 of payroll indebtedness owed to certain current and former employees for past services rendered through the issuance of 2,604,867 common shares at a deemed issuance price of $0.07 per share. The Company determined to satisfy the indebtedness with common shares in order to preserve its cash for working capital. The shares will be issued upon acceptance by the CSE and approval by the directors of the Company. None of the common shares issued in satisfaction of the indebtedness will be subject to any resale restrictions.

On September 23, 2020, the Company announced it had entered into a third supplemental indenture dated September 23, 2020 (the "Third 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 as further amended by the second supplemental indenture dated July 23, 2020 (the "Second Supplemental Indenture", and together with the Original Indenture and the Third Supplemental 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"). In connection with the execution of the Third Supplemental Indenture, the Company wishes to extend the maturity date from October 24, 2020 to April 24, 2021, and to reduce the conversion price from $0.105 to $0.06 per share.