
Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

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

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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 and six months ended August 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 August 31, 2020 and February 29, 2020
(Unaudited – Expressed in Canadian Dollars)

	Notes	August 31, 2020	February 29, 2020
		\$	\$
Assets			
Current Assets			
Cash		112,102	32,287
Accounts receivable	6	83,330	258,211
Biological assets	7	-	10,401
Inventories	8	508,859	475,665
Prepaid and other assets		147,281	154,134
Net investment in the lease	11	26,835	-
Deferred loss	4	111,501	491,429
		989,908	1,422,127
Non-Current Assets			
Property, plant and equipment	9	3,416,753	3,455,005
Right-of-use assets	12	-	87,437
Net investment in the lease	11	61,520	-
Intangible assets and goodwill	10	11,609,912	11,628,310
Total assets		16,078,093	16,592,879
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13, 18	1,993,019	1,679,277
Lease obligations	12	24,000	24,471
Loans and borrowings	14	3,309,349	195,448
Convertible loan payable	15	6,011,606	7,845,341
Deferred gain	14(b)	18,438	-
		11,356,412	9,744,537
Non-Current Liabilities			
Lease obligations	12	65,789	72,926
Loans and borrowings	14	-	2,495,641
Deferred tax liability		416,756	416,756
Total liabilities		11,838,957	12,729,860
Equity			
Share capital	16	76,613,898	73,188,162
Reserves		8,267,239	7,584,621
Accumulated deficit		(80,642,001)	(76,909,764)
Total equity		4,239,136	3,863,019
Total liabilities and equity		16,078,093	16,592,879

Nature and continuance of operations (Note 1)
Commitments (Note 23)
Subsequent events (Note 24)

Approved on behalf of the board October 29, 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 and six months ended August 31, 2020 and August 31, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended		Six Months Ended	
		2020	August 31, 2019	2020	August 31, 2019
		\$	\$	\$	\$
Revenue		344,049	133,832	369,924	133,832
Excise duties		(148,402)	-	(160,552)	-
Net revenue		195,647	133,832	209,372	133,832
Cost of sales	8	300,613	133,505	376,045	133,505
Loss (reversal) related to inventory impairment	8	(25,658)	214,939	(25,658)	214,939
Gross loss before fair value adjustments of biological assets		(79,308)	(214,612)	(141,015)	(214,612)
Realized fair value adjustments on inventory sold	8	(105,238)	36,393	(129,709)	36,393
Unrealized loss (gain) on changes in fair value of biological assets	7	-	(256,217)	1,008	(1,274,861)
Gross profit (loss)		25,930	5,212	(12,314)	1,023,856
Operating Expenses					
General and administration	19	398,755	1,640,771	908,167	3,789,664
Marketing		6,280	128,042	13,638	246,144
Depreciation and amortization	9, 10, 12	30,675	136,895	59,610	268,864
Share-based payments	17	463,102	403,104	782,371	894,254
Total operating expenses		898,812	2,308,812	1,763,786	5,198,926
Loss from Operations		(872,882)	(2,303,600)	(1,776,100)	(4,175,070)
Other Expenses (Income)					
Other expense (income)		(41,680)	59,046	2,169	39,805
Finance and other costs	20	765,909	881,793	1,620,959	1,771,752
Government subsidies		(20,213)	-	(20,213)	-
Foreign exchange		(6,558)	6	(5,446)	1,295
Gain on disposal of assets	9	(20,892)	-	(20,892)	-
Gain on sublease	11	(9,525)	-	(9,525)	-
Loss (gain) on extinguishment and modification of loans	14(a), 14(f), 14(g)	22,572	(356,234)	22,572	(356,234)
Loss on convertible bridge loan financing	4	189,964	-	379,928	-
Gain on related party loan	14(b)	(13,415)	-	(13,415)	-
Loss on settlement on contingent consideration	5	-	-	-	296,965
Changes in fair value of contingent consideration	5	-	-	-	5,198
		866,162	584,611	1,956,137	1,758,781
Net loss and comprehensive loss for the period		(1,739,044)	(2,888,211)	(3,732,237)	(5,933,851)
Basic and diluted loss per share		(0.01)	(0.02)	(0.02)	(0.03)
Weighted average number of shares outstanding					
Basic and diluted		257,960,507	190,472,370	246,648,475	186,494,510

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 and six months ended August 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		-	-	-	-	-	-	(3,732,237)	(3,732,237)
Conversion of notes (net of deferred tax)	15(i), 16(c)	28,676,189	2,817,861	-	-	(140,668)	(140,668)	-	2,677,193
Private placement	14(c)	1,500,000	105,000	-	-	-	-	-	105,000
Issuance of shares for loan and interest repayments	14(a), 15(i)	7,171,114	502,875	-	-	-	-	-	502,875
Share-based compensation	17	-	-	823,286	-	-	823,286	-	823,286
Balance, August 31, 2020		265,298,551	76,613,898	4,734,702	2,896,325	636,212	8,267,239	(80,642,001)	4,239,136

	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		-	-	-	-	-	-	-	(5,933,851)	(5,933,851)
Conversion of notes (net of deferred tax)	15(i)	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Exercise of options	17	350,000	238,668	-	(102,168)	-	-	(102,168)	-	136,500
Exercise of warrants	16(d)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Exercise of Broker Equity Units	16(e)	20,247	18,562	-	-	(5,401)	-	(5,401)	-	13,161
Issuance of shares for loan and interest repayments	14(g)	4,716,606	3,443,122	-	-	-	-	-	-	3,443,122
Share-based compensation	17	-	-	-	1,012,954	-	-	1,012,954	-	573,076
Balance, August 31, 2019		190,990,679	55,867,707	17,300,007	3,248,476	2,896,325	265,969	23,710,777	(21,232,621)	58,345,863

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 six months ended August 31, 2020 and 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Six Months Ended August 31,	
		2020	2019
		\$	\$
Cash Provided by (used in) Operating Activities		(3,732,237)	(5,933,851)
Net loss and comprehensive loss			
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold	8	(129,709)	36,393
Unrealized loss (gain) on changes in fair value of biological assets	7	1,008	(1,274,861)
Loss (reversal) related to inventory impairment	8	(25,658)	214,939
Depreciation of property, plant and equipment	9, 12	41,212	185,965
Amortization of intangible asset	10	18,398	82,899
Share-based compensation	17	823,286	1,012,954
Accretion expense	20	1,111,861	1,077,639
Finance lease income	11	(2,247)	-
Interest expense on lease obligations	12	6,952	28,338
Gain on sublease	11	(9,525)	-
Gain on disposal of assets	9	(20,892)	-
Gain on extinguishment and modification of loans	14(a), 14(f), 14(g)	22,572	(356,234)
Loss on convertible bridge loan financing	4	379,928	-
Gain on related party loan	14(b)	(13,415)	-
Changes in fair value of contingent consideration	5	-	5,198
Loss on settlement of contingent consideration	5, 18	-	296,965
Change in non-cash operating working capital			
Trade receivables		(25,953)	-
GST receivables		100,584	15,153
Other receivables		100,250	(74,777)
Biological assets		14,579	529,690
Inventories		122,747	(1,018,064)
Prepaid expenses		6,853	478,704
Accounts payable and accrued liabilities		643,756	(90,398)
		(565,650)	(4,783,348)
Proceeds from (repayment of) Financing Activities			
Sublease payment received	11	4,129	-
Lease obligations	12	(14,561)	(197,518)
Related party loan	14(b)	472,000	-
Line of credit	14(d)	60,000	-
Private placement	14(c)	105,000	-
Shares issued for option exercise	18(c)(ii)	-	136,500
Shares issued from warrant exercises	18(c)(iii)	-	1,584,918
Shares issued from Broker Equity Units exercises	18(c)(iv)	-	13,161
		626,568	1,537,061
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration	5	-	(4,975,000)
Purchase of property, plant and equipment	9	(7,103)	(295,310)
Disposal of property, plant and equipment	9	26,000	-
		18,897	(5,270,310)
Net change in cash		79,815	(8,516,597)
Cash, beginning of period		32,287	9,644,015
Cash, ending of period		112,102	1,127,418
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		162,945	557,660

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

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis “the Company” or “Sproutly Canada”), was incorporated on January 26, 2012 under the British Columbia Business Corporations Act. 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 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 allows the Company to conduct certain research and development activities.

On October 26, 2018, the Company commenced the process of growing cannabis with amounts classified as biological assets and inventories as at August 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 October 29, 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 August 31, 2020, the Company had working capital deficit of \$10,366,504 (February 29, 2020 - \$8,322,410) and an accumulated deficit of \$80,642,001 (February 29, 2020 - \$76,909,764). During the six months ended August 31, 2020, the Company used cash in operating activities of \$565,650 (six months ended August 31, 2019 - \$4,783,348), resulting primarily from the net loss and comprehensive loss of \$3,732,237 (six months ended August 31, 2019 - \$5,933,851) offset by items not affecting cash such as depreciation, amortization and stock based compensation of \$3,166,587 (six months ended August 31, 2019 - \$1,150,503). 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 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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

2. Basis of presentation

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.

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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

2. Basis of presentation (continued)

g) Significant Accounting Judgements, Estimates and Assumptions (continued)

COVID-19 estimation uncertainty (continued)

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.

- **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.

The Company applied for and received government grants under the Canada Emergency Commercial Rent Assistance ("CECRA") provided by 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 as income on a systematic basis over the periods that the related costs, for which it was intended to compensate, are expensed.

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 38.02%.

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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

4. Convertible bridge loan financing (continued)

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 three and six months ended August 31, 2020, the company recognized a loss on convertible bridge loan financing of \$189,964 and \$379,928 respectively (Three and six months ended August 31, 2019 – nil and nil).

On August 27, 2020, an amendment was entered between the Company and Infusion Biosciences Inc. in which the interest rate was increased to 15% and conversion price was decreased to \$0.07 per Unit. Changes were deemed to not represent a substantial modification of the original financial liability. A loss on modification of \$6,575 was recognized based on the amendment of the loan.

During the three and six months ended August 31, 2020, the Company incurred interest expense of \$26,718 and \$52,208 respectively (three and six months ended August 31, 2019 – nil and nil) and recorded accretion expense of \$60,861 and \$117,271 respectively (three and six months ended August 31, 2019 – nil and 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.

The sellers were 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 three and six months ended August 31, 2020, the Company recognized changes in fair value of contingent consideration of nil and nil respectively (three and six months ended August 31, 2019 – nil and \$5,198) and a loss on settlement of contingent consideration of nil and nil respectively (three and six months ended August 31, 2019 – nil and \$296,965).

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

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

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 August 31, 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 August 31, 2020	-

6. Accounts receivable

	August 31, 2020	February 29, 2020
	\$	\$
Trade receivables	26,236	283
GST and HST receivable	46,774	147,358
Other receivable	10,320	110,570
	83,330	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 as 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 as at August 31, 2020	-

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7. 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).

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

8. Inventories

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

	August 31, 2020	February 29, 2020
	\$	\$
Dry cannabis	484,993	416,125
Supplies and consumables	23,866	59,540
	508,859	475,665

For the three and six months ended August 31, 2020, the Company capitalized \$62,583 and \$207,397 respectively, of production costs (three and six months ended August 31, 2019 – \$120,611 and \$170,354) related to post-harvest activities and held 406,036 grams of dry cannabis and 213,112 grams of trim (February 29, 2020 – 502,770 grams of dry cannabis and 175,498 grams of trim).

During the three and six months ended August 31, 2020, the Company recognized cost of goods sold of \$300,613 and \$376,045 respectively (three and six months ended August 31, 2019 - \$133,505 and \$133,505) and income related to changes in fair value of inventory sold of \$105,238 and \$129,709 respectively (three and six months ended August 31, 2019 – expense of \$36,393 and nil). In addition, the Company recognized a reversal related to inventory impairment for the three and six months ended August 31, 2020 of \$25,658 and \$25,658 respectively (three and six months ended August 31, 2019 – loss on impairment of \$214,939 and \$214,939) for dry cannabis sold due to the increase in net realizable value.

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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	-	4,100	-	-	3,003	7,103
Disposal	-	-	-	(2,021)	(35,458)	(37,479)
Balance, August 31, 2020	1,098,550	10,233,485	87,423	-	803,773	12,223,231
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	-	28,911	2,998	-	8,338	40,247
Disposal	-	-	-	(2,021)	(30,350)	(32,371)
Balance, August 31, 2020	-	8,077,533	80,518	-	648,427	8,806,478
Net Book Value						
February 29, 2020	1,098,550	2,180,763	9,903	-	165,789	3,455,005
August 31, 2020	1,098,550	2,155,952	6,905	-	155,346	3,416,753

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 and six months ended August 31, 2020, \$207 and \$5,763 respectively (three and six months ended August 31, 2019 - \$32,499 and \$60,722) of depreciation was capitalized.

During the six months ended August 31, 2020, the Company disposed equipment with a net book value of \$5,108 for proceeds of \$26,000 and recognized a gain on disposal of assets of \$20,892.

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	53,996,632
Additions	-	-	-	-
Balance, August 31, 2019	6,631,931	46,012,157	1,322,544	53,996,632
Additions	-	-	-	-
Balance, February 29, 2020	6,631,931	46,012,157	1,322,544	53,996,632
Additions	-	-	-	-
Balance, August 31, 2020	6,631,931	46,012,157	1,322,544	53,996,632

Sproutly Canada Inc.

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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	82,899	-	-	82,899
Balance, August 31, 2019	165,798	-	-	165,798
Amortization	82,999	-	-	82,999
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
Amortization	18,398	-	-	18,398
Balance, August 31, 2020	5,233,673	35,800,503	1,322,544	42,356,720
Net book value, February 29, 2020	1,416,656	10,211,654	-	11,628,310
Net book value, August 31, 2020	1,398,258	10,211,654	-	11,609,912

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. Net investment in the lease

On July 1, 2020, the Company acted as an intermediate lessor and entered in a sublease agreement for one of its facilities. As the intermediate lessor, the Company accounted the head lease and the sublease as two separate contracts. Sproutly Canada has accounted for the sublease as a finance lease in which amounts due are recognized as net investment in the lease on the condensed interim consolidated statement of financial position. Net investment in the lease is the gross investment in the lease discounted using the incremental borrowing rate of 14% used to record the lease liability associated with the head lease (Note 12(c)). The gross investment in the lease is the sum of lease payments receivable by the Company under the finance lease and any unguaranteed residual value accruing to the Company. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return to the Company's net investment outstanding in respect of the sublease. For the three and six months ended August 31, 2020, the Company recognized finance lease income of \$2,247 and \$2,247 respectively (three and six months ended August 31, 2019 – nil and nil).

Upon recognizing the net investment in the lease, the Company derecognized the right-of-use asset associated with the sublease with the difference recorded as a gain on sublease of \$9,525.

Information about the net investment in the lease for which the Company is an intermediate lessor is presented below.

(a) Net investment in the lease

	\$
Balance, February 29, 2020	-
Addition	90,237
Finance lease income	2,247
Payment received	(4,129)
Balance, August 31, 2020	88,355
Balance, August 31, 2020 – Current Portion	26,835
Balance, August 31, 2020 – Non- Current Portion	61,520

(b) Maturity analysis of lease payments receivable

The following represents a maturity analysis of the Company's undiscounted lease payments receivable and potential exposures as at August 31, 2020.

Contractual obligations	Less than one year	One to five years	Total
Lease payments receivable	\$ 29,597	\$ 84,679	\$ 114,276

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12. 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
Disposal	102,571
Balance, August 31, 2020	-
Accumulated Depreciation	\$
Balance, February 28, 2019	-
Depreciation	168,799
Termination of lease	404,231
Disposal	(557,896)
Balance, February 29, 2020	15,134
Depreciation	6,726
Disposal	(21,860)
Balance, August 31, 2020	-
February 29, 2020	87,437
August 31, 2020	-

(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 August 31, 2020.

Contractual obligations	Less than one year	One to five years	Total
	\$	\$	\$
Lease obligations payments	29,597	87,297	116,894

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 three and six months ended August 31, 2020, the Company recognized \$3,476 and \$6,952 respectively of interest expense (three and six months ended August 31, 2019 – \$56,037 and \$57,675) on lease obligations and \$44,463 (August 31, 2019 – \$78,854) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the six months ended August 31, 2020, the total cash outflow relating to leases amount to \$59,024 (August 31, 2019 - \$316,233).

13. Accounts payable and accrued liabilities

	August 31, 2020	February 29, 2020
	\$	\$
Interest payable	246,385	244,522
Trade payables	1,311,676	1,067,158
Other payables	434,958	367,597
	1,993,019	1,679,277

Sproutly Canada Inc.

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14. Loans and borrowings

As at August 31, 2020, the Company held the following loans and borrowings:

		August 31, 2020	February 29, 2020
		\$	\$
Current			
Borrowings	(a)	-	150,000
Related party loan	(b)	456,019	-
Line of credit	(d)	60,000	-
Non-interest bearing loan with 1023409 B.C. Ltd.	(e)	45,448	45,448
Mortgage payable with 0982244 B.C. Ltd.	(f)	1,475,887	1,338,476
Interest bearing loan with 0982244 B.C. Ltd.	(f)	1,271,995	1,157,165
		3,309,349	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	-	472,000	105,000	60,000	-	-	-	637,000
Modification of loan	-	(38,717)	-	-	-	-	-	(38,717)
Accretions	-	22,736	-	-	-	252,241	-	274,977
Repayment	(150,000)	-	(105,000)	-	-	-	-	(255,000)
August 31, 2020	-	456,019	-	60,000	45,448	2,747,882	-	3,309,349

(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.

On August 24, 2020, the Company settled the outstanding loan of \$150,000 and interest of \$41,466 by issuing 1,800,000 Sproutly Canada common shares. The market price of the common shares on the date of settlement was \$0.07 per share and the Company recognized a gain on extinguishment of loan and interest of \$65,466.

During the three and six months ended August 31, 2020, the Company incurred interest expense of \$4,561 and \$7,397 respectively (three and six months ended August 31, 2019 - \$3,822 and \$7,644).

(b) Related party loan

During the six months ended August 31, 2020, the Company received on-demand related party loans from Infusion Biosciences Inc. for \$472,000. The loan originally was unsecured, bear no interest and was due on demand. On August 24, 2020, the Company entered into a secured loan agreement with Infusion Biosciences Inc. in which Sproutly Canada can lend up to \$855,000. Any amounts drawn from the loan as at May 14, 2020 will start incurring interest at the same date of 15% per annum accruing and compounding monthly. The loan matures on October 24, 2020.

As terms of interest and maturity of the loan were modified, it was re-measured at fair value using the discount rate of 21%, which is the observable market rate for similar financial instrument and recorded at amortized costs using the effective interest rate of 39.14%.

The difference between proceeds received of \$472,000, net of transaction costs of \$6,864 and fair value of \$433,283 was recognized as deferred gain of \$31,853 on the condensed interim consolidated statement of financial position, which shall be recognized over the life of the loan in the condensed interim consolidated statement of loss and comprehensive loss. During the three and six months ended August 31, 2020, the Company recognized a deferred gain of \$13,415 and \$13,415 respectively (three and six months ended August 31, 2020 – nil and nil).

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14. Loans and borrowings (continued)

(c) On-demand loan

The Company received an unsecured and interest-free loan of \$105,000 from a third party that is due on demand.

On August 24, 2020, the loan was settled as a non-brokered private placement for 1,500,000 units of the Company (the "Private Equity Units"), at a price of \$0.07 per unit. Each Private Equity Unit consist of one Common Share and one Common Share purchase warrant, with each warrant entitling the investor to acquire one Common Share at an exercise price of \$0.08 for a period of two years from the date of issuance. As the trading share price on the day of the private placement was equivalent to the Private Equity Unit price, the Company assigned all proceeds to share capital.

(d) Line of credit

During the period ended August 31, 2020, the Company drew \$60,000 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 and six months ended August 31, 2020, the Company incurred interest expense of \$44,110 and \$88,220 respectively (three and six months ended August 31, 2019 - \$44,110 and \$88,220), and recorded accretion expense of \$71,424 and \$137,411 respectively (three and six months ended August 31, 2019 - \$178,454 and \$191,212).

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.

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14. Loans and borrowings (continued)

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

During the three and six months ended August 31, 2020, the Company incurred interest expense of \$37,808 and \$75,616 respectively (three and six months ended August 31, 2019 - \$37,808 and \$75,616) and recorded accretion expense of \$59,637 and \$114,830 respectively (three and six months ended August 31, 2019 - \$45,335 and \$86,096).

- (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 and six months ended August 31, 2019, the Company incurred interest expense of \$11,301 and \$105,822 respectively.

15. 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
Modification of loan	-	6,575	6,575
Accretion	719,613	117,271	836,884
Conversion	(2,677,194)	-	(2,677,194)
Balance, August 31, 2020	5,044,801	966,805	6,011,606

- (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 six months ended August 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 \$2,677,194.

During the three and six months ended August 31, 2020, the Company incurred interest expense of \$107,109 and \$261,765 respectively (three and six months ended August 31, 2019 - \$168,667 and \$370,161) and accretion expense of \$309,765 and \$719,613 respectively (three and six months ended August 31, 2019 - \$351,101 and \$800,331).

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15. Convertible loans payable (continued)

During the period ended August 31, 2020, the Company settled outstanding interest payables of \$295,411 by issuing 5,371,114 common shares with a settlement price of \$0.06. As the market share price were between \$0.07 and \$0.08, the Company recognized a loss on extinguishment of interest of \$81,463.

- (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 38.02%. For the three and six months ended August 31, 2020, the Company incurred interest expense of \$26,718 and \$52,208 respectively (three and six months ended August 31, 2019 – nil and nil) and accretion expense of \$60,861 and \$117,271 respectively (three and six months ended August 31, 2019 – nil and nil).

16. 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 August 31, 2020, 10,771,770 shares were held in escrow.

- (c) Issued and outstanding

On August 24, 2020, the Company settled the outstanding loan of \$150,000 and interest of \$41,466 by issuing 1,800,000 Sproutly Canada common shares (Note 14(a)).

On August 24, 2020, the Company issued 1,500,000 shares as part of a \$105,000 non-brokered private placement (Note 14(c)).

During the period ended August 31, 2020, \$3,011,000 of convertible debentures were converted to 28,676,189 common shares of the Company (Note 15(i)).

During the period ended August 31, 2020, the Company settled outstanding interest payables of \$295,411 by issuing 5,371,114 common shares of the Company (Note 15(i)).

As at August 31, 2020, there were 265,298,551 (August 31, 2019 – 190,990,679) 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
Issued	1,500,000	\$0.08
Expired	(591,816)	\$0.14
Balance, August 31, 2020	14,984,322	\$0.82

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16. Share Capital (continued)

(d) Share purchase warrants (continued)

	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 August 31, 2020:

Exercise Price (\$)	Warrants Outstanding (#)	Weighted Average Remaining Contractual Life (years)	Expiry Date
0.08	1,500,000	0.15	October 24, 2020
0.90	13,484,322	0.15	October 24, 2020
	14,984,322		

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

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

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

	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.

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

16. Share Capital (continued)

(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. During the six months ended August 31, 2020, nil (August 31, 2019 – 20,247) Broker Equity Units were exercised. For the six months ended August 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. During the six months ended August 31, 2020, nil Units were exercised (August 31, 2019 – nil).

(g) Private Placement

As part of the non-brokered private placement (Note 14(c)), the Company issued 1,500,000 warrants as part of the 1,500,000 Private Equity Units. Each warrant has an exercise price of \$0.08 per share, expiring on August 24, 2022. The Company recognized value of nil in warrant reserves related to the share purchase warrants. During the six months ended August 31, 2020, nil warrants were exercised (August 31, 2019 – nil).

17. 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.

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

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(Unaudited – Expressed in Canadian Dollars)

17. 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
Cancelled	(5,739,703)	\$0.45
Expired	(150,000)	\$0.10
Balance, August 31, 2020	15,100,104	\$0.21

During the six months ended August 31, 2020, the Company granted 5,400,000 stock options (August 31, 2019 – 95,000) with a fair value of \$310,752 (August 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 six months ended August 31, 2020, nil stock options (August 31, 2019 – 350,000) were exercised for proceeds of nil (August 31, 2019 - \$136,500). The weighted average share price at the dates the options were exercised during the period ended August 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, August 31, 2019	15,660,307	\$0.34

The following table summarizes the stock options that remain outstanding as at August 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	1,302,181
0.01	50,965	April 18, 2027	50,965
0.25	3,906,546	March 25, 2027	2,604,361
0.25	1,300,000	July 6, 2028	866,668
0.60	275,000	July 6, 2028	183,336
0.67	800,000	August 1, 2028	533,332
0.62	265,000	November 6, 2028	132,498
0.44	525,000	December 11, 2023	262,498
0.60	375,000	December 11, 2023	187,500
0.41	30,000	March 6, 2024	30,000
0.27	30,000	November 5, 2024	30,000
0.10	2,250,000	March 17, 2025	1,225,000
0.10	2,350,000	March 17, 2025	200,000
	15,100,104		8,623,026

For the three and six months ended August 31, 2020, the Company incurred \$24,211 and \$40,915 respectively (three and six months ended August 31, 2019 - \$36,774 and \$118,700) of expenses for options granted and vested to consultants for services.

Sproutly Canada Inc.

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For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

17. Share-based compensation (continued)

The following table summarizes the stock options that remain outstanding as at August 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	659,547
0.01	101,465	April 18, 2027	50,732
0.25	4,058,749	March 25, 2027	1,352,915
0.25	2,500,000	July 6, 2028	833,334
0.60	375,000	July 6, 2028	200,002
0.67	2,800,000	August 1, 2028	933,332
0.62	787,500	November 6, 2028	131,248
0.44	1,475,000	December 11, 2023	245,832
0.60	375,000	December 11, 2023	62,500
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	-
	15,660,307		5,664,129

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.

18. 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 August 31, 2020 are as follows:

	Three months ended August 31,		Six months ended August 31,	
	2020	2019	2020	2019
	\$	\$	\$	\$
Management compensation ⁽ⁱ⁾⁽ⁱⁱ⁾	69,569	280,069	176,738	606,043
Share-based payments ⁽ⁱⁱⁱ⁾	332,631	307,586	567,481	633,932
	402,200	587,655	744,219	1,239,975

(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 August 31, 2020, the Company owed \$227,101 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 17).

Sproutly Canada Inc.

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For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

18. Related party transactions (continued)

(b) Related party loan

The Company entered into an \$855,000 secured loan agreement from Infusion Biosciences Inc. (Note 14(b)). As at August 31, 2020, the Company has drawn a total of \$472,000.

(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 three and six months ended August 31, 2020, the Company recognized a change in fair value of contingent consideration of nil and nil respectively (three and six months August 31, 2019 – nil and \$5,198) and a loss on settlement of contingent consideration of nil and nil respectively (three and six months August 31, 2019 – nil and \$296,965).

19. General and administration

	Three months ended		Six months ended	
	2020	August 31, 2019	2020	August 31, 2019
	\$	\$	\$	\$
Professional fees	132,121	444,899	214,253	825,730
Office and administration	124,549	369,303	361,879	806,559
Wages	110,180	595,778	280,521	1,291,051
Investor relations	31,905	230,791	51,514	866,324
	398,755	1,640,771	908,167	3,789,664

20. Finance and other costs

	Three months ended		Six months ended	
	2020	August 31, 2019	2020	August 31, 2019
	\$	\$	\$	\$
Accretion expense	524,423	574,890	1,111,861	1,077,639
Bank charges	1,348	14,478	2,633	18,296
Interest expense	240,138	292,425	506,465	675,817
	765,909	881,793	1,620,959	1,771,752

21. 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)

Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

21. Financial instruments and risk management (continued)

(a) Fair values of financial instruments (continued)

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 net investment in the lease, 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 August 31, 2020:

<u>Valuation approach</u>	<u>Key inputs</u>	<u>Inter-relationship between inputs and fair value measurement</u>
The net investment of the lease was valued using Company specific interest rates over expected payment periods. The fair value of the sublease was \$90,237.	Incremental borrowing rate – 14% per annum.	As the incremental borrowing rate decreases, the fair value increases.
The liability of the loan payable was valued using Company specific interest rates assuming no conversion features existed. The loan is accreted over the term to maturity as a non-cash interest charge with fair value and deferred gain of \$433,283 and \$38,717 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 56% 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 August 31, 2020 are primarily due from one provincial government agencies representing 27% (August 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 August 31, 2020, the Company had current assets of \$989,908 to settle current liabilities of \$11,356,412.

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

Less than 1 year	\$ 10,066,448
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Sproutly Canada Inc.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six months ended August 31, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars)

21. Financial instruments and risk management (continued)

(d) Liquidity risk (continued)

Subsequent to the six months ended August 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.

22. 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.

23. Commitments

There are no commitments as at August 31, 2020.

24. Subsequent events

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. None of the common shares issued in satisfaction of the indebtedness are 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 extended the maturity date from October 24, 2020 to April 24, 2021, and reduced the conversion price from \$0.105 to \$0.06 per share.

On September 30, 2020, the Company announced that it had agreed to settle an aggregate of approximately \$69,300 of indebtedness owed to one arms-length creditor for past services rendered through the issuance of 1,386,000 common shares at a deemed issuance price of \$0.05 per share. All common shares issued in satisfaction of the indebtedness are subject to a four month hold period from the date of issuance.

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

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(Unaudited – Expressed in Canadian Dollars)

24. Subsequent events (continued)

On October 15, 2020, the Company announced that THR had received an amended extract sales license from Health Canada (the "Sales License"). Under its Sales License, THR is now authorized to manufacture and sell Cannabis 2.0 products directly to provincial distributors and other authorized Canadian retail supply channels. THR's ability to sell Cannabis 2.0 products allows it to utilize its licensed APP technology and offer the Company's strain specific cannabis extracts, edible and beverage products in Canada through its existing provincial sales relationships.