



## **SPROUTLY CANADA INC.**

**MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
("MD&A")**

**FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

The following is a discussion and analysis of the financial condition and results of operations of Sproutly Canada Inc. ("Sproutly" or the "Company") for the three and six months ended August 31, 2020. This MD&A should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements and accompanying notes for the three and six months ended August 31, 2020 and August 31, 2019. All amounts in the MD&A are in Canadian dollars, except share and per share amounts or as indicated otherwise. The Company's accounting policies are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The effective date of this MD&A is October 29, 2020.

For reporting purposes, the Company prepares consolidated financial statements in Canadian dollars. Unless otherwise indicated, all dollar ("\$") amounts in this MD&A are expressed in Canadian dollars.

All references to we, our, us and Sproutly refer to the Company.

All references to management refer to the directors, senior officers and other officers of Sproutly, unless otherwise stated.

**Cautionary Statement on Forward Looking Information**

This MD&A and the Company's other public disclosure contain "forward-looking information" within the meaning of applicable Canadian securities laws ("forward-looking information") concerning the Company's business plans, including, but not limited to, anticipated results and developments in the Company's operations in future periods and other matters that may occur in the future. In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "target", "scheduled", "estimates", "forecasts", "intends", "anticipates", "determine", "continue", "projects", "potential", "proposed" or "believes", or variations or the negative of such words and phrases, or statements that certain actions, events or results "may", "could", "whether to", "would", "should", "likely", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. Forward-looking information contained in this MD&A includes, but is not limited to, statements regarding the competitive and business strategies of the Company, the Company's ongoing investment strategy, market prices, values and other economic indicators, receipt and timing of governmental approvals, including Health Canada approvals, the performance of the Company's business and operations, the intention to grow the business, operations and potential activities of the Company, the expected production capacity and revenue of the Company's projects, the competitive conditions of the industry, the anticipated changes to Canadian federal laws regarding the use of recreational cannabis and the business impacts on the Company, whether the Company will continue to be in compliance with regulatory requirements, the Company's intention to build a brand and develop cannabis products, the Company's intention to build valuable intellectual property and the anticipated benefits therefrom including accelerated sales growth and profit margins, analyses and other information based on expectations of future performance and planned products, possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action, timing, costs and potential success of future activities on the Company's facilities and projects, future outlook and goals, permitting time lines and requirements, regulatory and legal changes and requirements for additional capital, whether the Company will have sufficient working capital and its

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ability to raise additional financing required in order to develop its business and continue operations, and planned expenditures and budgets and the execution thereof.

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, including, without limitation, assumptions about possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action, revenue from the Company's proposed operations, general economic, financial market, regulatory and political conditions in which the Company operates, general demand and consumer interest in the Company's products, competition anticipated and unanticipated costs, the future market price of medical and recreational cannabis, the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms, government regulation of the Company's activities and products, including in the areas of taxation and environmental protection, the timely receipt of any required regulatory approvals, the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner, and the ability of the Company to conduct operations in a safe, efficient and effective manner.

While the Company considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking information. Many assumptions are based on factors and events that are not within the control of the Company and there is no assurance they will prove to be correct.

Furthermore, by their very nature, forward-looking information involves a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, events, results, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, without limitation, those related to the industry-wide risks, fluctuations in capital markets and share prices, risks related to the ability to obtain financing needed to fund the continued development of the Company's business, the Company's ability to manage anticipated and unanticipated costs, risks related to securing users and customers of the Company's product, risks related to securing and protecting the Company's intellectual property rights, risks related to the Company's failure to economically commercialize its product, risks related to delays or other problems in the third-party manufacturing process, risks related to the Company's failure to obtain necessary Health Canada approvals as scheduled or at all, risks related to the Company's inability to maintain or improve its competitive position, risks related to the Company's ability to establish its business internationally, risks related to the Company's ability to maintain or improve upon the medical effectiveness and usefulness of its product to intended users in the medical services industry, risks related to the Company's failure to retain key personnel and hire additional personnel needed to develop its business, risks related to the Company's failure to adequately evaluate its current business and its future prospects, risks related to the Company's business practice reputation being negatively affected by unfavourable publicity or consumer perception of the cannabis industry or the Company, the impact of any negative scientific studies on the effects of cannabis, market conditions, volatility and global economic conditions, risks associated with agreements with third parties relating to the Company's business, including agreements to manufacture and sell the Company's product and the ability to conclude such agreements on favorable terms, environmental risks, governmental regulations,

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restrictions imposed by the Canadian Securities Exchange and other regulatory authorities on the Company's business, the uncertainty of profitability based upon the Company's history of losses, risks related to foreign exchange rate fluctuations, as applicable, insurance and tax risks, general risks and uncertainties related to the Company's 's prospects and business strategy; and the risks described in the section of this MD&A entitled "Risk Factors".

This is not an exhaustive list of the risks and factors that may affect the Company's forward-looking information. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events, conditions, results, performance or achievements not to be as anticipated, estimated or intended. In addition to those discussed in this MD&A, please refer to the risks described in the Company's public disclosure record.

The Company cautions that the foregoing lists of important assumptions and factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained in this MD&A. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake any obligation to publicly update or revise any forward-looking information other than as required under applicable securities laws.

## **Description of Business**

Sproutly was incorporated as "Stone Ridge Exploration Corp." on January 26, 2012, pursuant to the BCBCA. On July 6, 2018, the Company closed a plan of arrangement under the CBCA pursuant to which, among other things, Sproutly, Inc. completed a reverse takeover of Stone Ridge (now, "Sproutly Canada, Inc."). Pursuant to the Arrangement, Stone Ridge changed its name to "Sproutly Canada, Inc." and Sproutly, Inc. became a wholly-owned subsidiary of the Company.

Sproutly Canada, Inc., through its wholly owned subsidiary Sproutly, Inc., is a licensed producer of medical cannabis pursuant to the Access to Cannabis for Medical Purposes Regulations (Canada) (the "ACMPR") and operates a 16,600 square foot production facility in Toronto, Ontario, Canada.

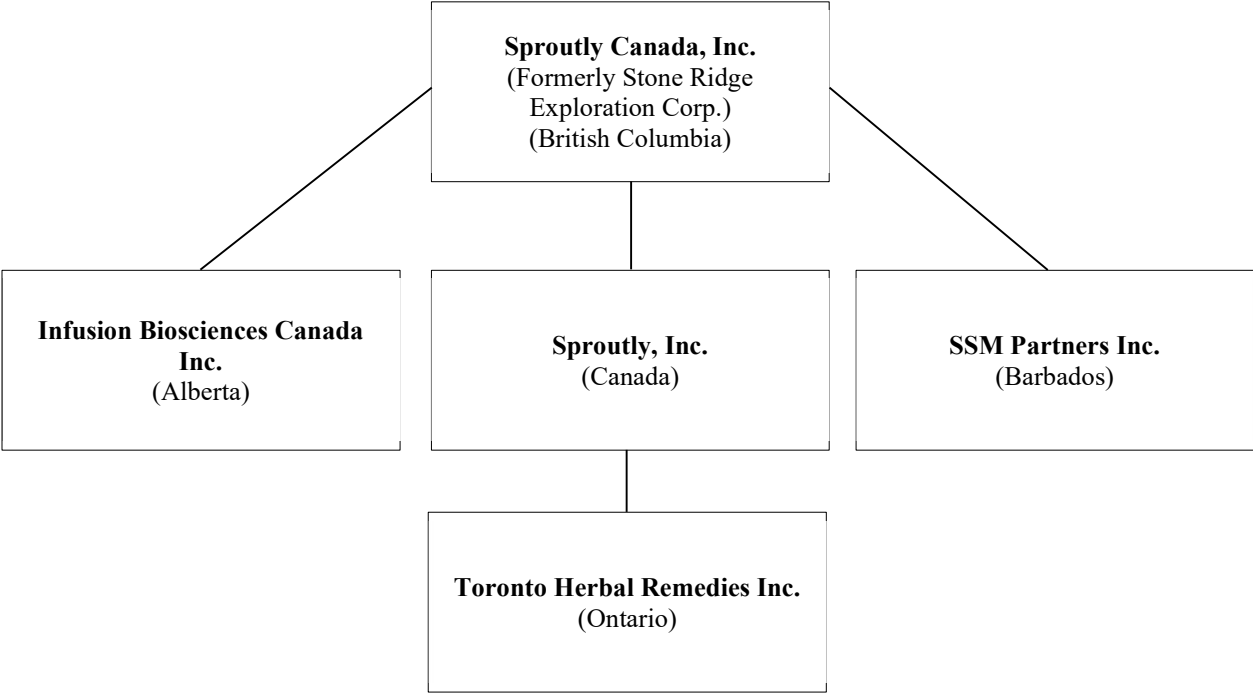
On July 6, 2018, the Company, under its former name, Stone Ridge Exploration Corp. ("Stone Ridge"), completed a reverse takeover transaction (the "Arrangement") pursuant to which it acquired all of the issued and outstanding shares of Sproutly Inc. In connection with the closing of the Arrangement, the Company changed its name from "Stone Ridge Exploration Corp." to "Sproutly Canada Inc."

Immediately prior to the completion of the Arrangement, Stone Ridge completed a consolidation of the Stone Ridge Shares on the basis of one post-Consolidation share for every two pre-Consolidation shares. Pursuant to the Arrangement, among other things, shareholders of Sproutly Inc. received approximately two (2) post-Consolidation Stone Ridge Shares in exchange for each common share of Sproutly Inc. held by such shareholder immediately prior to the effective time of the Arrangement.

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The Common Shares of the Company resumed trading following the Amalgamation on the CSE on July 9, 2018 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”

Due to the fact that the Arrangement was considered to be a reverse takeover transaction, the comparative financial information of the Company for the year ended February 28, 2019 consists of financial information of Sproutly Inc. References to the Company in this MD&A prior to July 6, 2018 refer to Sproutly Inc. unless otherwise noted.



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**Recent Developments**

On March 27, 2020, the Company announced that its wholly-owned subsidiary, Toronto Herbal Remedies (“THR”) had entered into a cannabis supply agreement with the provinces of Manitoba and Saskatchewan through the Manitoba Liquor and Lotteries Corporation and the Saskatchewan Liquor and Gaming Authority, respectively. Manitoba and Saskatchewan were the 3rd and 4th provinces in Canada to carry Sproutly’s CALIBER branded indoor-grown dried flower products, following Alberta and New Brunswick in late calendar 2019. CALIBER launched in Manitoba and Saskatchewan initially with its 3.5 gram flower offerings for each one of CALIBER’s unique strains, Berry White and Lemon Zkittle (2018 Highlife Cup Overall and Best Sativa winner which will be called Lemon Z).

On April 24, 2020, the Company announced an amendment to the conversion price of its previously issued convertible debentures (the “Debentures”). The Company issued \$10,750,000 of the Debentures on October 24, 2018, of which \$8,250,000 was outstanding as of the date of announcement, 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. The Company and the debenture holders approved a new conversion price of \$0.105 per share, with such amendment to be made effective April 24, 2020.

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

Key elements of the plan include the following:

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

On June 24, 2020, the Company announced that Justin Kates and Michael Bellas had resigned from the Board of Directors, effective June 22, 2020. Mr. Bellas remains a trusted advisor to the CEO, Dr. Arup Sen.

On July 6, 2020, the Company announced the Company’s wholly-owned subsidiary, THR, entered into a cannabis supply agreement with the province of British Columbia (the “Supply Agreement”) through the

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British Columbia Liquor Distribution Branch, and completed an initial sale into the province. British Columbia is the 5th province in Canada to carry Sproutly's CALIBER branded indoor-grown dried flower products ("CALIBER"). The Company also announced that Gregg Orr resigned from the Board of Directors and was replaced by the appointment of Sproutly's CFO, Craig Loverock, as a Director, effective June 30, 2020. In addition, the Company appointed Paul Marcellino to the Board of Directors, effective July 6, 2020 subject to regulatory approval.

On July 30, 2020, the Company announced it has 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 outstanding and due to mature on October 24, 2020. The Debentures were originally convertible by the holders thereof into common shares of the Company at a price of \$0.75 per common share. Pursuant to the First Supplement Indenture, the Company and the Debenture holders approved an amendment to the conversion price to \$0.105 per share.

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

The Loan is evidenced by a secured convertible debenture (the "Convertible Debenture") that provides the Lender with the right to convert the principal and accrued interest of the Loan 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 private loan (the "Original loan") from the Lender, 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 Original 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 Original Unit. Each Original 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 "Equity Units"), at a price of \$0.07 per Equity Unit to raise gross proceeds of \$105,000 (the "Private Placement"). Each Equity Unit consists of one Common Share and one Warrant, with each Warrant entitling the holder to acquire one Warrant Share at an exercise price equal to \$0.08 for a period of two years from date of issuance.

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In addition, the Company has completed a settlement of outstanding current debt of the Company 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 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.

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.

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.

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.

## **Outlook**

The Company’s objective is to capitalize on the growing legal recreational cannabis market in Canada, as well as in other global jurisdictions that are legally regulated for cannabis sales both medically and recreationally by legislation similar to the *Cannabis Act* (Canada), the *Cannabis Regulations* and other applicable law. The Company’s vision is to become a leader in the production of cannabis and cannabis-based products specifically in the beverage and consumables markets by utilizing the “Aqueous Phytorecovery Process” cannabis extraction technology (the “**APP Technology**”) licensed for Canada, Europe, Australia, Jamaica, and Israel (collectively, the “**Territory**”) by the Company’s acquisition of Infusion Biosciences Canada Inc. (“**Infusion Biosciences Canada**”). The Company intends to work with partners to formulate, brand and distribute beverages and other consumer packaged goods products in the Territory and also develop proprietary consumable products.

As a licensed producer under ACMPR and owner of a sales license under Health Canada regulations, the Company intends to distribute its products through the provincial distribution channels permitted in the recreational and medicinal cannabis markets.

## **Selected Information**



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	For the three months ended		For the six months ended	
	2020	August 31, 2019	2020	August 31, 2019
	\$	\$	\$	\$
Revenue	344,049	133,832	369,924	133,832
Net revenue	195,647	133,832	209,372	133,832
Gross profit (loss)	25,930	5,212	(12,314)	1,023,856
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)
Net loss	(1,739,044)	(2,888,210)	(3,732,237)	(5,933,851)
Total comprehensive loss	(1,739,044)	(2,888,210)	(3,732,237)	(5,933,851)
Basic and diluted loss per share	(0.01)	(0.02)	(0.02)	(0.03)
Weighted average number of common shares	257,960,507	190,472,370	246,648,475	186,494,510

## Results of Operations

### ***Financial Results for the three months ended August 31, 2020 and August 31, 2019***

During the three months ended August 31, 2020, the Company reported a net loss of \$1,739,044 and a loss per share of \$0.01, compared to a net loss of \$2,888,210 and a loss per share of \$0.02 for the three months ended August 31, 2019.

For the three months ended August 31, 2020, the Company generated net revenue of \$195,647 from the sale of 126,756 grams of flower and incurred cost of sales of \$300,613. In addition, the Company recognized a gain of \$105,238 in realized fair value adjustments on inventory sold during the quarter and a reversal related to inventory impairment of \$25,658.

During the quarter, the Company experienced an increase in sales to 126,756 grams compared to the prior quarter ended May 31, 2020 of 13,032 grams, and to the quarter ended August 31, 2019 of 33,458 grams. While the Company improved on a quarter-to-quarter basis, sales continued to be adversely impacted by the COVID-19 pandemic. The impact of the pandemic led to the implementation of the business transformation plan at the end of Q1 in which the Company scaled back its cultivation and sale of flower operations and shifted its focus on the APP technology for Cannabis 2.0 (see Recent Developments).

General and administrative expenses decreased by \$1,242,016 for the three months ended August 31, 2020, compared to the same period in 2019. The difference was primarily attributed to a decrease of \$495,598 in wages and a decrease of \$244,754 in office and administration fees resulting from the business transformation plan that scaled back on the cannabis cultivation and reduced staffing by approximately 75%. In addition, professional fees decreased by \$312,778 as Sproutly narrowed its strategic focus to commercializing the APP technology, whereas the Company was incurring professional service fees in the same period in the prior year on potential business opportunities. The remaining reduction in general and administrative expenses of \$198,886 is attributed to scaling down activities related to investor relations.

Depreciation decreased by \$106,220 during the three months ended August 31, 2020 as a result of an impairment write-down of \$50,351,000 on the Company's property, plant and equipment and intangible assets in prior period ended February 29, 2020.

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Financing and other costs decreased to \$765,090 for the three months ended August 31, 2020, a decrease of \$115,884 compared to three months ended August 31, 2019. This was the result of a decrease in interest expense of \$52,287 from the settlement of interest accruing loans as well as a lower accretion expense of \$50,467 and a decrease in bank charges of \$13,130.

Marketing expenses decreased by \$121,762 during the three months ended August 31, 2020 compared to the same period in the previous year. The Company has completed most of its marketing initiatives related to launching of its dried flower brand in prior periods and is currently focusing its resources towards the commercialization of the APP technology.

Share-based payments increased for three months ended August 31, 2020 by \$59,998 compared to same period last year due to the cancellation of 5,739,703 options for terminated employees. The Company is required to recognize the unvested portion immediately in expenses.

For the three months ended August 31, 2020, the Company recognized a loss on extinguishment and modification of loans of \$22,572, whereas it recognized a gain of \$356,234 for the same period in 2019.

Items relevant only for the three months ended August 31, 2020 and not for the three months ended August 31, 2019 were:

- \$20,213 in rent subsidies received the Government of Canada under the Canada Emergency Rent Assistance program;
- \$20,892 gain from disposal of property, plant and equipment;
- \$9,525 gain on sublease;
- \$189,964 in expenses related to recognition of deferred loss on convertible bridge loan financing; and
- \$13,415 in income related to the recognition of deferred gain on a related party loan.

The Company also incurred expenses of \$296,965 and \$5,198 related to loss on settlement on contingent consideration and changes in fair value of contingent consideration respectively, for the period ended August 31, 2019 compared to nil for both for the three months ended August 31, 2020. The contingent liability was related to an earn-out provision as part of the Infusion Biosciences Canada and SSM Partners acquisition which was settled in the prior year.

***Financial Results for the six months ended August 31, 2020 and 2019***

During the six months ended August 31, 2020, the Company reported a net loss of \$3,732,237 and a loss per share of \$0.02, compared to a net loss of \$5,933,851 and a loss per share of \$0.03 for the six months ended August 31, 2019.

For the six months ended August 31, 2020, the Company generated net revenue of \$209,372 from the sale of 139,788 grams of flower and incurred cost of sales of \$376,045. In addition, the Company recognized a loss of \$1,008 from changes in fair value of biological assets, but recorded a gain of \$129,709 in realized fair value adjustments on inventory sold during the period. The Company also recorded a reversal related to inventory impairment of \$25,658 on inventory sold during the year. During the six months ended August 31, 2019, the Company generated net revenue of \$133,832 for from the sale of 33,458 grams of flower and incurred cost of sales of \$133,505. In addition, the Company recognized a gain of \$1,274,861 from changes in fair value of biological assets. These differences on a per gram basis are

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due to the actual and projected selling price of flower being much higher during the six months ended August 31, 2019 compared to the same period in 2020.

General and administrative expenses decreased by \$2,881,497 for the six months ended August 31, 2020, compared to the same period in 2019. The difference was primarily attributed to a decrease of \$1,010,530 in wages and a decrease of \$444,680 in office and administration expenses resulting from the business transformation plan that scaled back the cannabis cultivation business and reduced staffing by approximately 75%. In addition, professional fees decreased by \$611,477 as Sproutly narrowed its strategic focus on the commercialization of the APP technology, whereas the Company was incurring professional service fees in the same period in the prior year on potential business opportunities. The remaining reduction in expense of \$814,810 is attributed to scaling down activities related to investor relations.

Depreciation decreased by \$209,254 during the six months ended August 31, 2020 as the result of an impairment write-down of \$50,351,000 on the Company's property, plant and equipment and intangible assets in prior period ended February 29, 2020.

Financing and other costs decreased to \$1,620,959 for the six months ended August 31, 2020, a decrease of \$150,793 compared to six months ended August 31, 2019. This was the result of a decrease in interest expense of \$169,352 from the settlement of interest accruing on loans and a decrease in bank charges of \$15,663, offset by an increase in accretion expense of \$34,222.

Marketing expenses decreased by \$232,506 during the six months ended August 31, 2020 compared to the same period in the previous year. The Company has completed most of its marketing initiatives related to launching its dried flower brand in prior periods and is currently focusing its resources on the commercialization of the APP technology.

Share-based payments decreased for six months ended August 31, 2020 by \$111,883 compared to same period last year as options with higher valuations were fully vested in 2019. However, this reduction was partially offset by the cancellation of 5,739,703 options for terminated employees in 2020. The Company is required to recognize the unvested portion immediately in expenses.

For the six months ended August 31, 2020, the Company recognized a loss on extinguishment and modification of loans of \$22,572, whereas it recognized a gain of \$356,234 for the same period in 2019.

Items relevant to only for the six months ended August 31, 2020 and not for the six months ended August 31, 2019 were:

- \$20,213 in rent subsidies received the Government of Canada under the Canada Emergency Rent Assistance program;
- \$20,892 gain from disposal of property, plant and equipment;
- \$9,525 gain on sublease;
- \$379,928 in expenses related to recognition of a deferred loss on convertible bridge loan financing; and
- \$13,415 in income related to recognition of a deferred gain on a related party loan.

The Company also incurred expenses of \$296,965 and \$5,198 related to loss on settlement on contingent consideration and changes in fair value of contingent consideration respectively, for the period ended

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August 31, 2019 compared to nil for both for the six months ended August 31, 2020. The contingent liability was related to an earn-out provision as part of the Infusion Biosciences Canada and SSM Partners acquisition which was settled in the prior year.

***Use of Proceeds***

The Company completed a short form prospectus financing in December 2018 for gross proceeds of \$20,760,000. The following table provides a comparison of the actual use of proceeds as compared to the original estimated expenditures, including an explanation of the impact of any variations on the Company's ability to achieve its business objectives and milestones.

Previous Disclosure re: Use of Proceeds		Actual Use of Proceeds	
Use of Proceeds	Estimated Expenditure	Actual Expenditure	Explanation of Variance and Impact of Variance
Completion of Infusion Biosciences Canada acquisition	\$4,525,000	\$4,525,000	N/A
SSM acquisition earnout	\$4,975,000	\$4,975,000	N/A
Interest on the Convertible Debentures	\$1,600,000	\$890,000	Two interest payments remain. Total interest payable is lower due to a conversion of \$2.5 million. Further conversions are anticipated.
Strategic investment opportunities	\$2,500,000	\$792,000	Unexpected delays related to the Moosehead agreement resulted in reduced expenditures.
THR Facility enhancements	\$250,000	\$405,000	Installation of additional harvesting and packaging equipment to improve efficiency.
Staffing initiatives	\$750,000	\$875,000	Greater than anticipated staff required at THR.
Brand development and corporate marketing initiatives	\$1,500,000	\$2,228,000	Additional efforts related to promoting the Company's products, technologies and brands on various media platforms. Additional expenditures on marketing research on the Company's products and branding.
General and administrative expenses	\$1,500,000	\$2,910,000	Increase utilities rates and consumption at THR. Additional expenditures on supplies and third-party professional services at facility (i.e., environment monitoring, waste removal, etc.) to ensure compliance with Health Canada standards. Architectural designs and permit costs on reagent facility.
General working capital	\$970,250	\$970,250	N/A
<b>Total</b>	<b>\$18,570,250</b>	<b>\$18,570,250</b>	

**SPROUTLY CANADA INC.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**Summary of Quarterly Results**

	<b>Aug 31, 2020</b>	<b>May 31, 2020</b>	<b>Feb 29 2020</b>	<b>Nov 30 2019</b>	<b>Aug 31 2019</b>	<b>May 31 2019</b>	<b>Feb 28 2019</b>	<b>Nov 30 2018</b>
		\$	\$	\$	\$	\$	\$	\$
Revenue	344,049	25,875	246,384	640,925	133,832	-	-	-
Excise duties	(148,402)	(12,150)	(94,169)	-	-	-	-	-
Net Revenue	195,647	13,725	152,215	640,925	-	-	-	-
Cost of sales	300,613	75,432	294,039	363,132	133,505	-	-	15,827
Loss (reversal) related to inventory impairment	(25,658)	-	1,447,527	424,519	214,939	-	-	-
<b>Gross loss before fair value adjustments</b>	<b>(79,308)</b>	<b>(61,707)</b>	<b>(1,589,351)</b>	<b>(146,726)</b>	<b>(214,612)</b>	<b>-</b>	<b>-</b>	<b>(15,827)</b>
Realized fair value adjustments on inventory sold	(105,238)	(24,471)	97,377	277,543	36,393	-	-	-
Unrealized loss (gain) on changes in fair value of biological assets	-	1,008	696,112	(1,438,105)	(256,217)	(1,018,644)	(177,982)	28,198
<b>Gross profit (loss)</b>	<b>25,830</b>	<b>(38,244)</b>	<b>(2,382,840)</b>	<b>1,013,836</b>	<b>5,212</b>	<b>1,018,644</b>	<b>177,982</b>	<b>(44,025)</b>
<b>Expenses</b>								
General and administration	389,755	509,412	1,200,522	1,270,141	1,640,771	2,148,893	2,197,393	1,564,688
Marketing	6,280	7,358	972	26,547	128,042	118,102	29,713	454
Depreciation and amortization	30,675	29,935	158,160	137,192	136,895	131,969	134,009	98,998
Share-based payments	463,102	319,269	272,703	339,771	403,104	491,150	609,864	604,000
Impairment charge for non-financial assets	-	-	50,351,000	-	-	-	-	-
<b>Loss from operations</b>	<b>(872,882)</b>	<b>(903,218)</b>	<b>(54,366,197)</b>	<b>(759,815)</b>	<b>(2,303,600)</b>	<b>(1,871,470)</b>	<b>(2,792,997)</b>	<b>(2,312,165)</b>
<b>Other expense (income)</b>								
Other expense (income)	(41,680)	43,849	54,415	(9,526)	59,046	(19,241)	8,410	47,306
Finance and other costs	765,909	855,050	819,955	758,674	881,793	889,959	871,744	459,376
Government subsidies	(20,213)	-	-	-	-	-	-	-
Foreign exchange	(6,558)	1,112	(1,522)	4,055	6	1,289	(2,243)	990
Gain on disposal of assets	(20,892)	-	-	-	-	-	-	-
Gain on sublease	(9,525)	-	-	-	-	-	-	-
Loss (Gain) on extinguishment and modification of loans	22,572	-	-	-	(356,234)	-	-	-
Loss on convertible bridge loan financing	189,964	189,964	80,528	-	-	-	-	-
Gain on related party loan	(13,415)	-	-	-	-	-	-	-
Gain on extinguishment of lease obligation	-	-	(18,304)	-	-	-	-	-
Loss on settlement of contingent consideration	-	-	-	-	-	296,965	-	24,064
Changes in fair value of contingent consideration	-	-	-	-	-	5,198	23,274	52,258
<b>Net loss before tax</b>	<b>(1,739,044)</b>	<b>(1,993,193)</b>	<b>(55,301,269)</b>	<b>(1,513,018)</b>	<b>(2,888,211)</b>	<b>(3,045,640)</b>	<b>(3,694,182)</b>	<b>(2,896,159)</b>
Income tax expense (recovery)	-	-	(1,137,144)	-	-	-	-	(1,048,079)
<b>Net loss</b>	<b>(1,739,044)</b>	<b>(1,993,193)</b>	<b>(54,164,125)</b>	<b>(1,513,018)</b>	<b>(2,888,211)</b>	<b>(3,045,641)</b>	<b>(3,694,182)</b>	<b>(1,848,080)</b>
<b>Net loss per share (i)</b>	<b>(0.01)</b>	<b>(0.01)</b>	<b>(0.24)</b>	<b>(0.01)</b>	<b>(0.02)</b>	<b>(0.02)</b>	<b>(0.03)</b>	<b>(0.01)</b>

The changes in the Company's financial results on a quarter-by-quarter basis are due primarily to the increased level of activity in the Company as it completed the RTO, the acquisition of Infusion Biosciences and SSM Partners, and finished construction of its facility and commenced operations. The Company began generating revenue from the sale of dried flower in the quarter ended August 31, 2019.

(i) Net loss per share fluctuates from period to period and is impacted by the amount of loss incurred and the number of weighted average number of common shares outstanding.

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**Liquidity and Capital Resources**

The Company's objectives when managing its liquidity and capital resources are to ensure sufficient liquidity to support its financial obligations, while executing on its operating and strategic plans. The Company manages its working capital by monitoring operational and cash flow forecasts to identify cash flow needs for general corporate and working capital purposes.

	<b>August 31, 2020</b>	<b>February 29, 2020</b>
Cash	\$ 112,102	\$ 32,287
Other current assets	877,806	1,389,840
Non-current assets	15,088,185	15,170,752
Current liabilities	11,356,412	9,744,534
Non-current liabilities	482,545	3,933,500
Working capital deficit	(10,366,504)	(8,322,410)

As at August 31, 2020, the Company had cash available of \$112,102 (February 28, 2019 - \$32,287) and a working capital deficit of \$10,366,504 (February 28, 2020 - working capital deficit of \$8,322,410).

Cash from Operating Activities

The Company used \$565,650 in operating activities during the six months ended August 31, 2020. The Company has incurred losses to date. The Company's subsidiary, THR, received its flower sales license from Health Canada effective October 16, 2019. As a result, the Company began to generate revenue from the sale of flower through authorized distributors and retailers near the end of the fiscal year ended February 29, 2020.

Cash from Financing Activities

During the six months ended August 31, 2020, Sproutly received proceeds of \$472,000 from a related party loan, \$105,000 from a private placement and drew \$60,000 from its line of credit. The Company paid \$14,561 in lease obligations and received \$4,129 in sublease payments.

Cash from Investing Activities

During the six months ended August 31, 2020, Sproutly used \$7,103 for plant and equipment and received \$26,000 in proceeds from the sale of equipment.

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

Liquidity Outlook

The Company has incurred losses to date. The Company began to generate revenue in the second quarter of fiscal 2020 but will incur losses until revenues reach a level where operations become profitable. The Company's ability to reach profitability is dependent on the successful implementation of its business strategy. While Management is confident in the success and profitability of the business, there can be no assurance that Sproutly will gain adequate market acceptance for its products or be able to generate sufficient gross margins to reach profitability.

The Company acknowledges that there is material uncertainty over the Company's ability to meet its funding requirements as they fall due. The Company's ability to continue in the normal course of operations is dependent on its ability to raise additional capital through debt and equity financings or refinancing debt as it comes due. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful in closing further financing in the future. Also, there can be no assurance that additional financing can be obtained in a timely manner, or at all, especially in light of the potential impact of the COVID-19 global pandemic on capital markets. Accessing the capital markets can be particularly challenging for companies operating in the cannabis industry. The Company has established and put into motion various initiatives to reduce costs and expand revenues as part of the Company's strategic plan to attain profitability and positive cash flow in 2021.

**Capital Structure**

The following table summarizes the maximum number of common shares potentially outstanding as at August 31, 2020 and as of the date of this MD&A if all outstanding options and warrants were converted to common shares:

	<b>As of August 31, 2020</b>	<b>As of the date of this MD&amp;A</b>
Common shares	265,298,551	288,756,751
Options	15,100,104	17,350,104
Warrants	14,984,322	1,500,000
Convertible Debenture units	49,895,238	74,545,455
Broker Convertible Debenture units	1,182,498	-
Broker Equity Warrant units	1,586,631	-
Infusion Biosciences Convertible Bridge Loan	31,064,094	31,064,094
Infusion Biosciences Convertible Debenture	-	23,476,494
<b>Fully diluted</b>	<b>379,111,438</b>	<b>436,692,898</b>

As at August 31, 2020, the Company had no off-balance sheet arrangements.

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**Related Party Transactions and Balances**

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

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

(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.

(b) Related party loan

The Company entered into a \$855,000 secured loan agreement with Infusion Biosciences Inc. 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.

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



**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carry amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described in Note 2 to the Company's financial statements which accompany this MD&A and are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

**Recent Accounting Pronouncements Adopted**

For details please refer to Note 2 of the August 31, 2020 financial statements which accompany this MD&A and are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

**Recent Accounting Pronouncements Not Yet Effective**

For details please refer to Note 2 of the August 31, 2020 financial statements which accompany this MD&A and are available under the Company's profile at [www.sedar.com](http://www.sedar.com).

**Financial Instruments and Other Instruments**

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

*Financial Assets – Subsequent measurement and gains and losses*

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest rate method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequent measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit and loss.

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired.
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*Financial Liabilities*

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

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

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

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

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

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

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

Cash, 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, contingent consideration payable and due to related party has been measured using Level 3 valuation methods and the following summarizes the key assumptions used to estimate fair value as at August 31, 2020:

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED 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.

(a) 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 ECL in accordance with IFRS 9 and management determined ECL to be nominal due to the type of receivables.

(b) 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% of total revenue (August 31, 2019 – nil).

(c) Liquidity risk

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

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at 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.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**Commitments**

There are no commitments as at August 31, 2020.

**Risks and Uncertainties**

Details of the risks and uncertainties related to the Company's business are set out in the Management Discussion and Analysis dated February 29, 2020 under the heading "Risk Factors" which is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

**SPROUTLY CANADA INC.  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2020**

**CORPORATE DIRECTORY**

**Trading Symbol – SPR  
Exchange - CSE**

**Sproutly Canada Inc.**

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Craig Loverock – CFO, Corporate Secretary and Director  
Con Constandis – Director  
Paul Marcellino – Director

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Con Constandis (Chairman)  
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