Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and nine months ended November 30, 2020 and November 30, 2019
(In Canadian Dollars)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

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

The accompanying unaudited condensed interim consolidated financial statements of Sproutly Canada Inc. for the three and nine months ended November 30, 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 November 30, 2020 and February 29, 2020
(Unaudited – Expressed in Canadian Dollars)

	Notes	November 30, 2020	February 29, 2020
		$	$
Assets			
Current Assets			
Cash		98,032	32,287
Accounts receivable	6	33,659	258,211
Biological assets	7	-	10,401
Inventories	8	614,081	475,665
Prepaid and other assets		155,762	154,134
Net investment in the lease	11	26,053	-
Deferred loss	4	-	491,429
		927,587	1,422,127
Non-Current Assets			
Property, plant and equipment	9	3,397,318	3,455,005
Right-of-use assets	12	-	87,437
Net investment in the lease	11	57,889	-
Intangible assets and goodwill	10	11,600,713	11,628,310
Total assets		**15,983,507**	**16,592,879**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	13, 18	2,068,930	1,679,277
Lease obligations	12	20,633	24,471
Loans and borrowings	14	3,810,725	195,448
Convertible loan payable	15	5,018,570	7,845,341
Deferred gain	14(b)	8,618	-
		10,927,476	9,744,537
Non-Current Liabilities			
Lease obligations	12	64,815	72,926
Loans and borrowings	14	-	2,495,641
Deferred tax liability		416,756	416,756
Total liabilities		**11,409,047**	**12,729,860**
Equity			
Share capital	16	78,025,265	73,188,162
Reserves		8,398,708	7,584,621
Accumulated deficit		(81,849,513)	(76,909,764)
Total equity		**4,574,460**	**3,863,019**
Total liabilities and equity		**15,983,507**	**16,592,879**

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

Approved on behalf of the board January 29, 2021

"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 nine months ended November 30, 2020 and November 30, 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended November 30, 2020	Three Months Ended November 30, 2019	Nine Months Ended November 30, 2020	Nine Months Ended November 30, 2019
		$	$	$	$
Revenue		69,120	640,925	439,044	774,757
Excise duties		(33,600)	-	(194,152)	-
Net revenue		35,520	640,925	244,892	774,757
Cost of sales	8	64,900	363,132	440,945	496,637
Loss (reversal) related to inventory impairment	8	8,047	424,519	(17,611)	639,458
Gross loss before fair value adjustments of biological assets		(37,427)	(146,726)	(178,442)	(361,338)
Realized fair value adjustments on inventory sold	8	(32,154)	277,543	(161,862)	313,936
Unrealized loss (gain) on changes in fair value of biological assets	7	-	(1,438,105)	1,008	(2,712,966)
Gross profit (loss)		(5,273)	1,013,836	(17,588)	2,037,692
Operating Expenses					
General and administration	19	431,062	1,270,141	1,339,228	5,059,805
Marketing		6,036	26,547	19,674	272,691
Depreciation and amortization	9, 10, 12	28,566	137,192	88,176	406,056
Share-based payments	17	118,857	339,771	901,228	1,234,025
Total operating expenses		584,521	1,773,651	2,348,306	6,972,577
Loss from Operations		(589,794)	(759,815)	(2,365,894)	(4,934,885)
Other Expenses (Income)					
Other expense (income)		17,037	(9,526)	19,206	30,279
Finance and other costs	20	683,768	758,674	2,304,726	2,530,426
Government subsidies		(1,500)	-	(21,713)	-
Foreign exchange		(1,409)	4,055	(6,855)	5,350
Gain on disposal of assets	9	-	-	(20,892)	-
Gain on sublease	11	-	-	(9,525)	-
Gain on extinguishment and modification of loans	14(a), 14(b), 15(i), 15(ii)	(169,742)	-	(147,170)	(356,234)
Recognition of deferred loss on convertible bridge loan financing	4	111,501	-	491,429	-
Recognition of deferred gain on related party loan	14(b)	(21,936)	-	(35,351)	-
Loss on settlement on contingent consideration	5	-	-	-	296,965
Changes in fair value of contingent consideration	5	-	-	-	5,198
		617,719	753,203	2,573,855	2,511,984
Net loss and comprehensive loss for the period		(1,207,513)	(1,513,018)	(4,939,749)	(7,446,869)
Basic and diluted loss per share		-	(0.01)	(0.02)	(0.04)
Weighted average number of shares outstanding					
Basic and diluted		279,176,471	220,157,235	256,660,309	197,611,419

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 nine months ended November 30, 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		-	-	-	-	-	-	(4,939,749)	(4,939,749)
Conversion of notes (net of deferred tax)	15(i), 16(c)	47,659,521	3,948,547	-	-	(133,791)	(133,791)	-	3,814,756
Private placement	14(c)	1,500,000	105,000	-	-	-	-	-	105,000
Issuance of shares for loan and interest repayments	14(a), 15(i)	7,655,113	531,915	-	-	-	-	-	531,915
Issuance of shares for liability settlements	16(c)	3,990,867	251,641	-	-	-	-	-	251,641
Share-based compensation	17	-	-	947,878	-	-	947,878	-	947,878
Balance, November 30, 2020		288,756,749	78,025,265	4,859,294	2,896,325	643,089	8,398,708	(81,849,513)	4,574,460

		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		-	-	-	-	-	-	-	(7,446,869)	(7,446,869)
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	400,500	249,424	-	(112,419)	-	-	(112,419)	-	137,005
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
Issuance of shares for equity earn-out provision	5	46,857,675	17,300,007	(17,300,007)				(17,300,007)		-
Share-based compensation	17	-	-	-	1,389,873	-	-	1,389,873	-	1,389,873
Balance, November 30, 2019		237,898,836	73,178,470	-	3,615,144	2,896,325	265,969	6,777,438	(22,745,639)	57,210,269

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 nine months ended November 30, 2020 and 2019
(Unaudited – Expressed in Canadian Dollars)

	Notes	Nine Months Ended November 30, 2020	2019
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(4,939,749)	(7,446,869)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold	8	(161,862)	313,936
Unrealized loss (gain) on changes in fair value of biological assets	7	1,008	(2,712,966)
Loss (reversal) related to inventory impairment	8	(17,611)	639,458
Depreciation of property, plant and equipment	9, 12	60,579	281,706
Amortization of intangible asset	10	27,597	124,349
Share-based compensation	17	947,878	1,389,873
Accretion expense	20	1,553,992	1,566,675
Finance lease income	11	(5,207)	-
Interest expense on lease obligations	12	9,985	45,915
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), 15(ii)	(147,170)	(356,234)
Loss on convertible bridge loan financing	4	491,429	-
Gain on related party loan	14(b)	(35,351)	-
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		283	-
GST receivables		136,310	114,638
Other receivables		87,959	(97,445)
Biological assets		14,579	(55,322)
Inventories		41,699	(500,230)
Prepaid expenses		(1,628)	496,590
Accounts payable and accrued liabilities		982,978	621,535
		(982,719)	(5,272,228)
Proceeds from (repayment of) Financing Activities			
Sublease payment received	11	11,502	-
Lease obligations	12	(21,935)	(232,694)
Related party loan	14(b)	855,000	-
Line of credit	14(d)	80,000	-
Private placement	14(c)	105,000	-
Shares issued for option exercise		-	137,005
Shares issued from warrant exercises		-	1,584,918
Shares issued from Broker Equity Units exercises		-	13,161
		1,029,567	1,502,390
Cash Provided by (Used in) Investing Activities			
Contingent cash consideration	5	-	(4,975,000)
Purchase of property, plant and equipment	9	(7,103)	(442,246)
Proceeds received from disposal of property, plant and equipment	9	26,000	-
		18,897	(5,417,246)
Net change in cash		65,745	(9,187,084)
Cash, beginning of period		32,287	9,644,015
Cash, ending of period		**98,032**	**456,931**
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		162,945	639,578

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), was incorporated on January 26, 2012 under the British Columbia Business Corporations Act. 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 which allows the Company to conduct certain research and development activities. On October 15, 2020, Health Canada granted THR an amended extract sales license which allows the Company to manufacture and sell Cannabis 2.0 products directly to provincial distributors and other authorized Canadian retail supply channels.

On October 26, 2018, the Company commenced the process of growing cannabis with amounts classified as biological assets and inventories as at November 30, 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 January 27, 2021.

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 November 30, 2020, the Company had a working capital deficit of $9,999,889 (February 29, 2020 - $8,322,410) and an accumulated deficit of $81,836,488 (February 29, 2020 - $76,909,764). During the nine months ended November 30, 2020, the Company used cash in operating activities of $982,719 (nine months ended November 30, 2019 - $5,272,228), resulting primarily from the net loss and comprehensive loss of $4,926,724 (nine months ended November 30, 2019 - $7,446,869) offset by items not affecting cash such as depreciation, amortization and stock based compensation of $3,944,005 (nine months ended November 30, 2019 - $2,174,641). 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.

2. Basis of presentation (continued)

b) Going concern (continued)

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

c) Basis of consolidation

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

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

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

d) Basis of measurement

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

e) Functional and presentation of foreign currency

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

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

f) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable at that date. Realized and unrealized exchange gains and losses are recognized in the consolidated statement of comprehensive loss. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

The assets and liabilities of foreign operations are translated into Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive loss and accumulated in equity.

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:

2. Basis of presentation (continued)

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

COVID-19 estimation uncertainty

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

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

3. Significant accounting policies

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

- 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 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 as income on a systematic basis over the periods that the related costs, for which it was intended to compensate, are expensed.

- Net investment in the lease

  The Company has classified its sublease arrangements as a finance lease because the sublease is for the remaining term of the head lease. At the commencement date, the Company recognized the assets held under the finance lease in the consolidated statement of financial position and presented them as a receivable at an amount equal to the net investment in the lease. The Company has used an incremental borrowing rate of 14%, which is consistent with the incremental borrowing rate used for its head leases because the rate implicit in the subleases could not be readily determined.

(Unaudited – Expressed in Canadian Dollars)

4. Convertible bridge loan financing

On January 28, 2020, the Company secured a $1,000,000 private loan with Infusion Biosciences Inc., a related party. 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 the share price to calculate the value of the Units using the same methodology.

The value of Warrants were based on the following assumptions:

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

The value of Units were based on the following assumptions:

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

The difference between proceeds received, net of transaction costs, and fair value of $571,957 was recognized as deferred loss on convertible bridge loan financing, which shall be recognized over the life of the loan in the consolidated statement of loss and comprehensive loss. During the three and nine months ended November 30, 2020, the Company recognized a loss on convertible bridge loan financing of $111,501 and $491,429 respectively (three and nine months ended November 30, 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. The changes were deemed not to 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.

On October 22, 2020, a second amendment was entered between the Company and Infusion Biosciences Inc. in which the maturity date of the loan was extended from October 24, 2020 to April 24, 2021. The change was deemed to be a significant modification 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 39.14% on October 22, 2020, and a $100,731 gain on extinguishment of loan was recorded.

During the three and nine months ended November 30, 2020, the Company incurred interest expense of $40,830 and $93,037 respectively (three and nine months ended November 30, 2019 – nil and nil) and recorded accretion expense of $52,497 and $169,768 respectively (three and nine months ended November 30, 2019 – nil and nil).

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

(Unaudited – Expressed in Canadian Dollars)

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 were to be 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, the 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 a 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 nine months ended November 30, 2020, the Company recognized changes in fair value of contingent consideration of nil and nil respectively (three and nine months ended November 30, 2019 – nil and $5,198) and a loss on settlement of contingent consideration of nil and nil respectively (three and nine months ended November 30, 2019 – nil and $296,965).

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

For accounting purposes, the acquisitions of IBS Canada and SSM Partners are accounted for as one aggregate transaction. IBS Canada has the licensing rights for the exclusive use of certain technology within specified jurisdictions for the development, use, ability to make, sell, offer for sale, import and export water soluble and oil based products from cannabis and hemp plants, while SSM Partners will provide the analytics to support the technology. As at November 30, 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.

(Unaudited – Expressed in Canadian Dollars)

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

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 November 30, 2020	-

6. Accounts receivable

	November 30, 2020	February 29, 2020
	$	$
Trade receivables	-	283
GST and HST receivable	11,048	147,358
Other receivable	22,611	110,570
	33,659	**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 November 30, 2020	**-**

The following inputs and assumptions are all categorized within Level 3 on the fair value hierarchy and were used in determining the fair value of biological assets:

Inputs and assumptions	Calculation method	Inter-relationship between unobservable inputs and fair value – the estimated fair value would increase (decrease) if:
Selling price per gram	Based on expected future selling price for all strains of cannabis sold by the Company.	The selling price per gram were higher (lower).
Attrition rate	Based on the average number of plants culled at each stage of production.	The attrition rate was lower (higher).
Average yield per plant	Based on the average number of grams of dried cannabis/trim inventory expected to be harvested from each cannabis plant.	The average yield per plant was higher (lower).
Cost per gram to complete production	Based on actual production costs incurred divided by the grams expected to be produced.	The costs per gram to complete production were lower (higher).
Cumulative stage of completion in the production process	Based on the number of days in production over a total approximate grow cycle.	The number of days in production was higher (lower).

As of November 30, 2020, the Company had fully harvested all of its biological assets.

(Unaudited – Expressed in Canadian Dollars)

8. Inventories

The following is a breakdown of inventory as at November 30, 2020:

	November 30, 2020 $	February 29, 2020 $
Dry cannabis	588,147	416,125
Supplies and consumables	25,934	59,540
	614,081	**475,665**

For the three and nine months ended November 30, 2020, the Company capitalized $32,148 and $239,545 respectively, of production costs (three and nine months ended November 30, 2019 – $175,290 and $356,918) related to post-harvest activities and held 385,226 grams of dry cannabis and 212,834 grams of trim (February 29, 2020 – 502,770 grams of dry cannabis and 175,498 grams of trim).

During the three and nine months ended November 30, 2020, the Company recognized cost of goods sold of $64,900 and $440,945 respectively (three and nine months ended November 30, 2019 - $363,132 and $496,637) and income related to changes in fair value of inventory sold of $32,154 and $161,862 respectively (three and nine months ended November 30, 2019 – expense of $277,543 and 313,936). In addition, the Company recognized an inventory impairment of $8,047 for the three months ended November 30, 2020 and a reversal related to inventory impairment of $17,611 for the nine months ended November 30, 2020 (three and nine months ended November 30, 2019 – loss on impairment of $424,519 and $639,458).

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, November 30, 2020	**1,098,550**	**10,233,485**	**87,423**	**-**	**803,773**	**12,223,231**

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated depreciation and impairment	$	$	$	$	$	$
Balance, February 28, 2019	-	138,617	13,853	1,347	20,834	174,651
Depreciation	-	264,580	28,950	674	68,372	362,576
Impairment		7,645,425	34,717	-	581,233	8,261,375
Balance, February 29, 2020	-	8,048,622	77,520	2,021	670,439	8,798,602
Depreciation	-	43,401	4,497	-	11,784	59,682
Disposal	-	-	-	(2,021)	(30,350)	(32,371)
Balance, November 30, 2020		**8,092,023**	**82,017**	**-**	**651,873**	**8,825,913**
Net Book Value						
February 29, 2020	**1,098,550**	**2,180,763**	**9,903**	**-**	**165,789**	**3,455,005**
November 30, 2020	**1,098,550**	**2,141,462**	**5,406**	**-**	**151,900**	**3,397,318**

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 nine months ended November 30, 2020, $67 and $5,828 respectively (three and nine months ended November 30, 2019 - $36,766 and $98,488) of depreciation was capitalized.

(Unaudited – Expressed in Canadian Dollars)

9. Property, plant and equipment (continued)

During the nine months ended November 30, 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	53,966,632
Additions	-	-	-	-
Balance, November 30, 2019	6,631,931	46,012,157	1,322,544	53,966,632
Additions	-	-	-	-
Balance, February 29, 2020	6,631,931	46,012,157	1,322,544	53,966,632
Additions	-	-	-	-
Balance, November 30, 2020	**6,631,931**	**46,012,157**	**1,322,544**	**53,966,632**

	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, November 30, 2019	165,798	-	-	165,798
Amortization	82,899	-	-	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	27,597	-	-	27,597
Balance, November 30, 2020	**5,242,872**	**35,800,503**	**1,322,544**	**42,365,919**
Net book value, February 29, 2020	**1,416,656**	**10,211,654**	**-**	**11,628,310**
Net book value, November 30, 2020	**1,389,059**	**10,211,654**	**-**	**11,600,713**

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 nine months ended November 30, 2020, the Company recognized finance lease income of $2,960 and $5,207 respectively (three and nine months ended November 30, 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.

(Unaudited – Expressed in Canadian Dollars)

11. Net investment in the lease (continued)

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	5,207
Payment received	(11,502)
Balance, November 30, 2020	83,942
Balance, November 30, 2020 – Current Portion	26,053
Balance, November 30, 2020 – Non- Current Portion	57,889

(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 November 30, 2020.

Contractual obligations	**Less than one year**	**One to five years**	**Total**
	$	**$**	**$**
Lease payments receivable	29,758	77,145	106,903

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, November 30, 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, November 30, 2020	-

February 29, 2020	**87,437**
November 30, 2020	**-**

(Unaudited – Expressed in Canadian Dollars)

12. Leases (continued)

(b) Maturity analysis of lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations and potential exposures as at November 30, 2020.

Contractual obligations	Less than one year	One to five years	Total
	$	$	$
Lease obligations payments	29,758	79,763	109,521

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 nine months ended November 30, 2020, the Company recognized $3,032 and $9,985 respectively of interest expense (three and nine months ended November 30, 2019 – $17,578 and $45,915) on lease obligations and $49,589 (November 30, 2019 – $78,854) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the nine months ended November 30, 2020, the total cash outflow relating to leases amount to $71,794 (November 30, 2019 - $401,821).

13. Accounts payable and accrued liabilities

	November 30, 2020	February 29, 2020
	$	$
Interest payable	376,097	244,522
Trade payables	1,333,776	1,067,158
Other payables	359,057	367,597
	2,068,930	**1,679,277**

14. Loans and borrowings

As at November 30, 2020, the Company held the following loans and borrowings:

		November 30, 2020	February 29, 2020
		$	$
Current			
Borrowings	(a)	-	150,000
Related party loan	(b)	797,204	-
Line of credit	(d)	80,000	-
Non-interest bearing loan with 1023409 B.C. Ltd.	(e)	45,448	45,448
Mortgage payable with 0982244 B.C. Ltd.	(f)	1,552,347	1,338,476
Interest bearing loan with 0982244 B.C. Ltd.	(f)	1,335,726	1,157,165
		3,810,725	**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	-	855,000	105,000	80,000	-	-	-	1,040,000
Modification of loan	-	(137,214)	-	-	-	-	-	(137,214)
Accretions	-	79,418	-	-	-	392,432	-	471,850
Repayment	(150,000)	-	(105,000)	-	-	-	-	(255,000)
November 30, 2020	**-**	**797,204**	**-**	**80,000**	**45,448**	**2,888,073**	**-**	**3,810,725**

14. Loans and borrowings (continued)

(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 nine months ended November 30, 2020, the Company incurred interest expense of nil and $7,397 respectively (three and nine months ended November 30, 2019 - $3,781 and $10,731).

(b) Related party loan

The Company received unsecured, non-interest and on-demand related party loans from Infusion Biosciences Inc. On August 24, 2020, these loans were consolidated when the Company entered into a secured loan agreement with Infusion Biosciences Inc. in which Sproutly Canada can borrow up to $855,000. Amounts drawn from the loan at or after May 14, 2020 will start accruing interest on the same date at 15% per annum, compounding monthly and maturing on October 24, 2020.

As the terms of interest and maturity of the loan were modified on August 24, 2020, amounts that have been withdrawn by the Company were 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. This gain shall be recognized over the life of the loan in the condensed interim consolidated statement of loss and comprehensive loss.

On September 22, 2020, the Company withdrew $150,000 and recognized a fair value debt of $147,437 and a deferred gain of $2,563.

On October 9, 2020, the Company withdrew $109,915 and recognized a fair value debt of $109,000 and a deferred gain of $915.

On October 22, 2020, an amendment to the secured loan agreement was entered between the Company and Infusion Biosciences Inc. in which the maturity date of the loan was extended from October 24, 2020 to April 24, 2021. The change was deemed to not represent a significant modification of the original financial liability. A gain on modification of $69,011 was recognized based on the amendment of the loan. As at November 30, 2020 the Company has fully withdrawn $855,000 from the loan.

For the three and nine months ended November 30, 2020, the Company recognized a deferred gain of $21,936 and $35,351 respectively (three and nine months ended November 30, 2019 – nil and nil).

During the three and nine months ended November 30, 2020, the Company incurred interest expense of $22,845 and $39,145 respectively (three and nine months ended November 30, 2019 - nil and nil), and recorded accretion expense of $56,633 and $79,418 respectively (three and nine months ended November 30, 2019 - nil and nil).

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 November 30, 2020, the Company drew $80,000 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 nine months ended November 30, 2020, the Company incurred interest expense of $43,630 and $131,850 respectively (three and nine months ended November 30, 2019 - $43,630 and $131,850), and recorded accretion expense of $76,460 and $213,871 respectively (three and nine months ended November 30, 2019 - $55,833 and $247,045).

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.

(Unaudited – Expressed in Canadian Dollars)

14. Loans and borrowings (continued)

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

During the three and nine months ended November 30, 2020, the Company incurred interest expense of $37,397 and $113,013 respectively (three and nine months ended November 30, 2019 - $37,397 and $113,013) and recorded accretion expense of $63,731 and $178,561 respectively (three and nine months ended November 30, 2019 - $62,121 and $148,217).

(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 nine months ended November 30, 2019, the Company incurred interest expense of $nil 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	-	(94,156)	(94,156)
Accretion	912,374	169,767	1,082,141
Conversion	(3,814,756)	-	(3,814,756)
Balance, November 30, 2020	**4,100,000**	**918,570**	**5,018,570**

(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. The conversion price was further amended on September 23, 2020 from $0.105 per share to $0.06 per share. For the nine months ended November 30, 2020, $4,150,000 of convertible debentures were converted to 47,659,521 common shares of the Company with a combined fair value of $3,814,756.

15. Convertible loans payable (continued)

During the three and nine months ended November 30, 2020, the Company incurred interest expense of $96,258 and $358,013 respectively (three and nine months ended November 30, 2019 - $166,833 and $536,994) and accretion expense of $192,762 and $912,374 respectively (three and nine months ended November 30, 2019 - $371,083 and $1,171,414).

During the period ended November 30, 2020, the Company settled outstanding interest payable of $320,745 by issuing 5,855,113 common shares with a settlement price of $0.06 per share. As certain interest settlements occurred when the market share price exceeded $0.06 per share, 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%.

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. The changes were deemed not to 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.

On October 22, 2020, a second amendment was entered between the Company and Infusion Biosciences Inc. in which the maturity date of the loan was extended from October 24, 2020 to April 24, 2021. The change was deemed to be a significant modification 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 39.14% on October 22, 2020 and a $100,731 gain on extinguishment of loan was recorded.

For the three and nine months ended November 30, 2020, the Company incurred interest expense of $40,830 and $93,037 respectively (three and nine months ended November 30, 2019 – nil and nil) and recorded accretion expense of $52,496 and $169,767 respectively (three and nine months ended November 30, 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 November 30, 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)).

On September 14, 2020, the Company issued 2,604,867 shares to settle $182,341 of payroll indebtedness owed to certain current and former employees for past services.

(Unaudited – Expressed in Canadian Dollars)

16. Share Capital (continued)

(c) Issued and outstanding (continued)

On October 1, 2020, the Company issued 1,386,000 shares at $0.05 per share to settle $69,300 of accounts payable to an arm-lengths creditor for past services rendered.

During the period ended November 30, 2020, $4,150,000 of convertible debentures were converted to 47,659,521 common shares of the Company (Note 15(i)).

During the period ended November 30, 2020, the Company settled outstanding interest payables of $320,745 by issuing 5,855,115 common shares of the Company (Note 15(i)).

As at November 30, 2020, there were 288,756,749 (November 30, 2019 – 227,898,854) 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	(14,076,138)	$0.87
Balance, November 30, 2020	**1,500,000**	**$0.08**

	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 November 30, 2020:

Exercise Price ($)	Warrants Outstanding (#)	Weighted Average Remaining Contractual Life (years)	Expiry Date
0.08	1,500,000	1.73	August 24, 2022

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

Exercise Price ($)	Warrants Outstanding (#)	Expiry Date
0.74	439,867	December 19, 2019
0.74	676,451	December 20, 2019
0.74	1,116,156	December 21, 2019
0.74	106,542	December 22, 2019
0.74	1,620,456	January 30, 2020
0.74	3,237,871	January 31, 2020
0.17	401,815	March 28, 2020
0.17	190,001	April 10, 2020
0.90	13,484,322	October 24, 2020
	21,273,481	

(Unaudited – Expressed in Canadian Dollars)

16. Share Capital (continued)

(d) Share purchase warrants (continued)

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

	2020	**2019**
Share price at date of issuance (per share)	$0.07	$0.66
Volatility	100%	71.19%
Expected life	2 years	2 years
Risk-free rate	0.29%	2.30%

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

(e) Equity Special Warrant Units

As part of the Special Warrants Bought Deal Financing, each Equity Special Warrant Units when exercised entitles the holder of one-half common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized value of nil in warrant reserves related to the share purchase warrants. On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised and 7,700,000 of share purchase warrants were issued. During the nine months ended November 30, 2020, nil (November 30, 2019 – 1,396,052) warrants were exercised. As at November 30, 2020, the remaining 6,303,948 share purchase warrants have expired.

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 nine months ended November 30, 2020, nil (November 30, 2019 – 20,247) Broker Equity Units were exercised and the remaining 1,057.753 units have expired. For the nine months ended November 30, 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 nine months ended November 30, 2020, nil Units were exercised (November 30, 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 nine months ended November 30, 2020, nil warrants were exercised (November 30, 2019 – nil).

(Unaudited – Expressed in Canadian Dollars)

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.

	Stock Options #	Weighted Average Exercise Price $
Balance, February 29, 2020	15,589,807	$0.34
Granted	7,650,000	$0.09
Cancelled	(5,739,703)	$0.45
Expired	(150,000)	$0.10
Balance, November 30, 2020	**17,350,104**	**$0.19**

During the nine months ended November 30, 2020, the Company granted 7,650,000 stock options (November 30, 2019 – 125,000) with a fair value of $394,546 (November 30, 2019 - $45,877). Of the 7,650,000 stock options granted, 900,000 were granted to employees and vested immediately and 2,250,000 were granted to employees with a vesting period of one-half every three months. The remaining 4,500,000 stock options were granted to employees with a vesting period of one-sixth every six months. The weighted average exercise price of grants during the period was $0.09.

During the nine months ended November 30, 2020, nil stock options (November 30, 2019 – 400,500) were exercised for proceeds of nil (November 30, 2019 - $137,005). The weighted average share price at the dates the options were exercised during the period ended November 30, 2019 was $0.84 per share.

	Stock Options #	Weighted Average Exercise Price $
Balance, February 28, 2019	15,915,307	$0.34
Granted	125,000	$0.58
Exercised	(400,500)	$0.34
Balance, November 30, 2019	**15,639,807**	**$0.34**

The following table summarizes the stock options that remain outstanding as at November 30, 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	3,255,454
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	176,664
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	2,250,000
0.10	2,350,000	March 17, 2025	558,333
0.06	900,000	October 26, 2025	900,000
0.06	1,350,000	October 26, 2025	-
	17,350,104		**11,601,618**

(Unaudited – Expressed in Canadian Dollars)

17. Share-based compensation (continued)

For the three and nine months ended November 30, 2020, the Company incurred $5,735 and $46,650 respectively (three and nine months ended November 30, 2019 - $37,148 and $155,848) of expenses for options granted and vested to consultants for services.

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

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
0.02	150,000	May 5, 2020	150,000
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	659,547
0.01	50,965	April 18, 2027	232
0.25	4,058,749	March 25, 2027	2,029,375
0.25	2,500,000	July 6, 2028	833,334
0.60	375,000	July 6, 2028	200,002
0.67	2,800,000	August 1, 2028	933,332
0.62	787,500	November 6, 2028	262,496
0.44	1,475,000	December 11, 2023	245,832
0.60	375,000	December 11, 2023	62,500
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	10,833
0.27	30,000	November 5, 2024	30,000
	15,639,807		**6,462,170**

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)	$0.06-0.10	$0.41-$0.80
Volatility	88.68% to 100.00%	97.10% to 100.00%
Expected life	2.5 to 3.5 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 November 30, 2020 are as follows:

	Three months ended November 30,		**Nine months ended November 30,**	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Management compensation(i)(ii)	66,625	186,347	243,363	792,389
Share-based payments(iii)	75,823	239,464	643,304	923,675
	142,448	**425,811**	**886,667**	**1,716,064**

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

(Unaudited – Expressed in Canadian Dollars)

18. Related party transactions

(a) Compensation of key management personnel (continued)

(ii) As of November 30, 2020, the Company owed $231,916 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).

(b) Related party loan

The Company entered into an $855,000 secured loan agreement from Infusion Biosciences Inc. (Note 14(b)).

(c) Convertible bridge loan

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

(d) Contingent consideration payable

The Company settled a contingent consideration payable to a related party on March 20, 2019 of $4,975,000 as part of the acquisition of SSM Partners. For the three and nine months ended November 30, 2020, the Company recognized a change in fair value of contingent consideration of nil and nil respectively (three and nine months ended November 30, 2019 – nil and $5,198) and a loss on settlement of contingent consideration of nil and nil respectively (three and nine months ended November 30, 2019 – nil and $296,965).

19. General and administration

	Three months ended November 30,		Nine months ended November 30,	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Professional fees	49,729	297,075	308,588	1,122,807
Office and administration	172,575	466,921	489,851	1,273,478
Wages	205,318	452,531	485,835	1,743,582
Investor relations	3,440	53,614	54,954	919,938
	431,062	**1,270,141**	**1,339,228**	**5,059,805**

20. Finance and other costs

	Three months ended November 30,		Nine months ended November 30,	
	2020	**2019**	**2020**	**2019**
	$	**$**	**$**	**$**
Accretion expense	442,132	489,037	1,553,993	1,566,676
Bank charges	893	660	3,525	18,956
Interest expense	240,743	268,977	747,208	944,794
	683,768	**758,674**	**2,304,726**	**2,530,426**

(Unaudited – Expressed in Canadian Dollars)

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

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 November 30, 2020:

Valuation approach	Key inputs	Inter-relationship between inputs and fair value measurement
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 33% 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.

(b) Liquidity risk

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

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at November 30, 2020, the Company had current assets of $927,587 to settle current liabilities of $10,927,476.

(Unaudited – Expressed in Canadian Dollars)

21. Financial instruments and risk management (continued)

(c) Liquidity risk (continued)

The Company has the following undiscounted loan obligations as at November 30, 2020, which are expected to be payable in the following respective periods:

	$
Less than 1 year	9,330,448

Subsequent to the nine months ended November 30, 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.

(d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Currently the Company does not charge or is charged floating interest rates on its loans receivable, payables or other 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 November 30, 2020.

24. Subsequent events

On December 17, 2020, the Company executed a Letter of Intent to enter into a commercial relationship with Cannabis Manufacturer's Guild Ltd. ("CMG"). The agreement will allow Sproutly to expand and diversify its flower and Cannabis 2.0 product offerings utilizing brands developed by CMG and its affiliates (the "Acquired Products"), through the Company's wholly-owned subsidiary, Toronto Herbal Remedies Inc. ("THR"). The agreement allows Sproutly to sell the Acquired Products and facilitate potential business-to-business sales of the Company's proprietary whole plant extracts to CMG's network of Guild members.

On January 5, 2021, pursuant to a convertible debenture indenture dated October 24, 2018 between the Company and TSX Trust Company, as trustee, which was amended pursuant to a first supplemental indenture dated April 24, 2020, a second supplemental indenture dated July 23, 2020 and a third supplemental indenture dated September 23, 2020 (collectively, the "Indenture"), the company settled $124,000 in accrued and unpaid interest (the "Interest") under the Indenture. In settlement of the Interest, the Company issued 2,480,000 common shares in the capital of the Company (the "Settlement Shares") at a price of $0.05 per Settlement Share. The outstanding Interest was fully settled upon the issuance of the Settlement Shares. The Debenture holders voluntarily elected to satisfy the Interest with common shares of the Company which allows the Company to preserve its cash for future operations.

On January 11, 2021 the Company executed a Letter of Intent to enter into a commercial relationship with CannaHive Inc. ("CannaHive"). The agreement will allow the Company to further expand its Cannabis 2.0 product offerings at the Company's wholly-owned subsidiary, THR.