Sproutly Canada Inc.
Consolidated Financial Statements

For the years ended February 28, 2021 and February 29, 2020
(In Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Sproutly Canada Inc.:

Opinion

We have audited the consolidated financial statements of Sproutly Canada Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2021 and February 29, 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 28, 2021 and February 29, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2 (b) in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended February 28, 2021 and, as of that date, had a working capital deficiency and an accumulated deficit. As stated in Note 2 (b), these events or conditions, along with other matters as set forth in Note 2 (b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jo-Ann Lempert.

Montreal, Quebec

July 19, 2021

MNP SENCRL, srl [1]

[1] FCPA auditor, FCA, public accountancy permit No. A122514

Sproutly Canada Inc.
Consolidated Statements of Financial Position
As at February 28, 2021 and February 29, 2020
(Expressed in Canadian Dollars)

	Notes	February 28, 2021	February 29, 2020
		$	$
Assets			
Current Assets			
Cash		171,818	32,287
Accounts receivable	6	94,864	258,211
Biological assets	7	-	10,401
Inventories	8	468,044	475,665
Prepaid and other assets		158,240	154,134
Net investment in the lease	12	25,298	-
Deferred loss	4	-	491,429
		918,264	1,422,127
Non-Current Assets			
Property, plant and equipment	10	3,225,522	3,455,005
Right-of-use assets	13	-	87,437
Net investment in the lease	12	54,174	-
Intangible assets and goodwill	11	-	11,628,310
Total assets		**4,197,960**	**16,592,879**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	14, 19	2,649,765	1,679,277
Deferred revenue		48,593	-
Lease obligations	13	20,045	24,471
Loans and borrowings	15	4,062,599	195,448
Convertible loans payable	4, 16	2,917,955	7,845,341
Deferred gain		3,490	-
		9,702,447	9,744,537
Non-Current Liabilities			
Lease obligations	13	60,996	72,926
Loans and borrowings	15	48,206	2,495,641
Deferred tax liability	24	-	416,756
Total liabilities		**9,811,649**	**12,729,860**
Equity			
Share capital	17	80,120,572	73,188,162
Reserves		7,549,221	7,584,621
Accumulated other comprehensive loss		38,229	-
Accumulated deficit		(93,321,711)	(76,909,764)
Total deficit		**(5,613,689)**	**3,863,019**
Total liabilities and equity		**4,197,960**	**16,592,879**

Nature and continuance of operations (Note 1)
Going Concern (Note 2b)
Commitments (Note 26)
Subsequent events (Note 27)

Approved on behalf of the board July 19, 2021

"Arup Sen" , Director

"Con Constandis" , Director

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

Sproutly Canada Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended February 28, 2021 and February 29, 2020
(Expressed in Canadian Dollars)

	Notes	2021	2020
		$	$
Revenue		649,855	1,021,141
Excise duties		(333,431)	(94,169)
Net revenue		316,424	926,972
Cost of sales	8	600,110	790,676
Loss related to inventory impairment	8	255,705	2,086,985
Gross loss before fair value adjustments of biological assets		(539,391)	(1,950,689)
Realized fair value adjustments on inventory sold	8	(199,547)	411,313
Unrealized gain on changes in fair value of biological assets	7	(24,701)	(2,016,854)
Gross loss		(315,143)	(345,148)
Operating Expenses			
General and administration	20	1,696,855	6,260,327
Marketing		22,411	273,663
Depreciation and amortization	10,11, 13	116,663	564,217
Share-based payments	18	220,075	1,506,728
Impairment charge for non-financial assets	9, 10, 11	11,743,875	50,351,000
Total operating expenses		13,799,879	58,955,935
Loss from Operations		14,115,022	59,301,083
Other Expenses (Income)			
Other expense (income)		(753)	84,694
Finance and other costs	21	2,957,946	3,350,380
Government grants and subsidies		(98,598)	-
Foreign exchange		31,969	3,828
Gain on disposal of assets		(20,892)	-
Gain on sublease		(9,525)	-
Gain on extinguishment and modification of loans	4, 15(a), 15(b), 16(i), 16(ii)	(597,855)	(356,234)
Recognition of deferred loss on convertible bridge loan financing	4, 16(ii)	491,429	80,528
Recognition of deferred gain on related party loan	15(b)	(40,040)	-
Gain on extinguishment of lease obligation	13	-	(18,304)
Loss on settlement on contingent consideration		-	296,965
Changes in fair value of contingent consideration		-	5,198
		2,713,681	3,447,055
Net loss before tax		16,828,703	62,748,138
Income tax recovery	24	(416,756)	(1,137,144)
Net loss for the year		16,411,947	61,610,994
Other comprehensive loss			
Other Comprehensive loss that may be reclassified to net loss			
Foreign currency translation loss		38,229	-
Total comprehensive loss for the year		**16,450,176**	**61,610,994**
Basic and diluted loss per share		($0.06)	($0.30)
Weighted average number of shares outstanding			
Basic and diluted		270,522,467	205,112,854

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

Sproutly Canada Inc.
Consolidated Statements of Changes in Equity
For the years ended February 28, 2021 and February 29, 2020
(Unaudited – Expressed in Canadian Dollars)

		Share Capital		**Reserves**						
	Notes	**Common Shares**	**Amount**	**Share-Based Compensation**	**Warrants**	**Convertible Notes Reserves**	**Total Reserves**	**Accumulated Other Comprehensive Loss**	**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 year		-	-	-	-	-	-	-	(16,411,947)	(16,411,947)
Conversion of notes	16(i), 17(c)	82,659,519	5,901,440	-	-	(201,492)	(201,492)	-	-	5,699,948
Private placement	15(e)	1,500,000	105,000	-	-	-	-	-	-	105,000
Issuance of shares for loan and interest repayments	15(a), 16(i), 17(c)	10,809,186	674,329	-	-	-	-	-	-	674,329
Issuance of shares for liability settlements	17(c)	3,990,867	251,641	-	-	-	-	-	-	251,641
Foreign currency translation		-	-	-	-	-	-	38,229		38,229
Share-based compensation	18	-	-	166,092	-	-	166,092	-	-	166,092
Balance, February 28, 2021		326,910,820	80,120,572	4,077,508	2,896,325	575,388	7,549,221	38,229	(93,321,711)	(5,613,689)

		Share Capital			**Reserves**					
	Notes	**Common Shares**	**Amount**	**Shares to be Issued**	**Share-Based Compensation**	**Warrants**	**Convertible Notes Reserves**	**Total Reserves**	**Accumulated Deficit**	**Total**
		#	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance, February 28, 2019		180,336,775	48,624,339	17,300,007	2,337,690	2,996,672	385,422	23,019,791	(15,298,770)	56,345,360
Net loss and comprehensive loss for the year		-	-	-	-	-	-	-	(61,610,994)	(61,610,994)
Conversion of notes	16(i)	3,333,332	1,863,152	-	-	-	(119,453)	(119,453)	-	1,743,699
Share-based payment	17(c)	52,394	9,692	-	-	-	-	-	-	9,692
Exercise of options	18	400,500	249,424	-	(112,419)	-	-	(112,419)	-	137,005
Exercise of warrants	17(d)	2,233,719	1,679,864	-	-	(94,946)	-	(94,946)	-	1,584,918
Exercise of Broker Equity Units	17(e)	20,247	18,562	-	-	(5,401)	-	(5,401)	-	13,161
Issuance of shares for loan and interest	15(h)	4,716,606	3,443,122	-	-	-	-	-	-	3,443,122
Issuance of shares for equity earn-out provision	5	36,857,675	17,300,007	(17,300,007)	-	-	-	(17,300,007)	-	-
Equity feature of convertible bridge loan financing (net of deferred tax)		-	-	-	-	-	510,911	510,911	-	510,911
Share-based compensation	18	-	-	-	1,686,145	-	-	1,686,145	-	1,686,145
Balance, February 29, 2020		227,951,248	73,188,162	-	3,911,416	2,896,325	776,880	7,584,621	(76,909,764)	3,863,019

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

Sproutly Canada Inc.
Consolidated Statements of Cash Flows
For the years ended February 28, 2021 and February 29, 2020
(Expressed in Canadian Dollars)

	Notes	2021	2020
		$	$
Cash Provided by (used in) Operating Activities			
Net loss and comprehensive loss		(16,411,947)	(61,610,994)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold	8	(199,547)	411,313
Unrealized gain on changes in fair value of biological assets	7	(24,701)	(2,016,854)
Loss related to inventory impairment	8	255,705	2,086,985
Depreciation of property, plant and equipment	10, 13	79,867	567,217
Amortization of intangible asset	11	36,796	165,798
Share-based payment		-	9,692
Share-based compensation	18	166,092	1,686,145
Accretion expense	21	1,957,725	2,107,701
Finance lease income	12	(8,110)	-
Gain on extinguishment of lease obligation	13	-	(18,304)
Interest expense on lease obligations	13	12,950	58,896
Gain on sublease	12	(9,525)	-
Gain on disposal of assets	10	(20,892)	-
Gain on extinguishment and modification of interest and loans	4, 15(a), 15(b), 16(i), 16(ii)	(597,855)	(356,234)
Loss on settlement of contingent consideration	5	-	296,965
Loss on convertible bridge loan financing	4	491,429	80,528
Gain on related party loan	15(b)	(40,040)	-
Government grants and subsidies	15(d)	(76,885)	-
Changes in fair value of contingent consideration	5	-	5,198
Impairment charge for non-financial assets	9, 10, 11	11,743,875	50,351,000
Deferred tax recovery	24	(416,756)	(1,137,144)
Change in non-cash operating working capital			
Trade receivables		(48,074)	-
GST receivables		106,491	237,744
Other receivables		104,929	(118,181)
Biological assets		40,286	(741,999)
Inventories		(47,750)	101,234
Prepaid expenses		(4,106)	536,675
Accounts payable and accrued liabilities		1,724,286	764,939
Deferred revenue		48,593	-
		(1,137,163)	(6,531,680)
Proceeds from (repayment of) Financing Activities			
Sublease payment received	12	18,875	-
Lease obligations	13	(29,307)	(199,431)
Related party loan	15(b)	855,000	-
Related party non-interest bearing loan	15(c)	150,000	
Line of credit	15(d)	120,000	-
Private placement	15(e)	105,000	-
Proceeds from convertible bridge loan financing	4	-	947,207
Shares issued for option exercise		-	137,005
Shares issued from warrant exercises		-	1,584,918
Shares issued from Broker Equity Units exercises		-	13,161
		1,219,568	2,482,860
Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment		(7,103)	(587,908)
Proceeds received from disposal of property, plant and equipment	10	26,000	-
Contingent cash consideration	5	-	(4,975,000)
		18,897	(5,562,908)
Foreign exchange		38,229	-
Net change in cash		139,531	(9,611,728)
Cash, beginning of year		32,287	9,644,015
Cash, ending of year		**171,818**	**32,287**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest		325,890	1,050,606

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), was incorporated on January 26, 2012 under the British Columbia Business Corporations Act. On July 6, 2018, the Company acquired Sproutly Inc. ("Sproutly") through a reverse acquisition transaction. Sproutly was incorporated on January 17, 2017 under the British Columbia Business Corporation Act. The registered office is located at 10th floor – 595 Howe Street, Vancouver, British Columbia, V6C 2T5. On July 9, 2018, the Company began trading on the Canadian Securities Exchange ("the Exchange") under the symbol "SPR". The Company is also quoted on the Frankfurt, Berlin and Munich exchanges under the symbol "38G", and on the OTCQB Venture Marketplace under the symbol "SRUTF".

The Company intends to identify and evaluate potential business opportunities in the medicinal and recreational cannabis industry. On February 28, 2018, Sproutly acquired all of the issued and outstanding common shares of Toronto Herbal Remedies Inc. ("THR"). THR was incorporated on January 13, 2013 under the Ontario Business Corporation Act. On June 8, 2018, Health Canada granted THR a cultivation license to produce and sell medical marijuana under the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR"). On March 29, 2019, Health Canada granted THR a processing license to produce cannabis oil and related products and will allow the Company to conduct certain research and development activities. On October 15, 2020, Health Canada granted THR an amended extract sales license authorizing THR to manufacture and sell Cannabis 2.0 products directly to provincial distributors and other authorized Canadian retail supply channels.

On July 31, 2018, the Company acquired all of the issued and outstanding common shares of Infusion Biosciences Canada Inc. ("IBS Canada") and SSM Partners Inc. ("SSM Partners") described in Note 5. IBS Canada was incorporated on February 28, 2018 under the Alberta Business Corporations Act. SSM Partners was incorporated on March 1, 2018 under the Companies Act of Barbados with International Business Company status.

On October 26, 2018, the Company commenced the process of growing cannabis with amounts classified as biological assets and inventories. As at February 28, 2021, the Company has ceased all cultivation activities and harvested all biological assets to inventories.

2. Basis of presentation

a) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on July 19, 2021.

b) Going concern

These consolidated financial statements have been prepared on a going concern basis which presumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of its operations.

As of February 28, 2021, the Company had working capital deficit of $8,784,183 (February 29, 2020 – $8,322,410) and an accumulated deficit of $93,321,711 (February 29, 2020 - $76,909,764). The Company used cash in operating activities of $1,137,163 (year ended February 29, 2020 - $6,531,680), resulting primarily from the net loss and comprehensive loss of $16,411,947 (year ended February 29, 2020 - $61,610,994) offset by items not affecting cash such as depreciation, amortization, stock based compensation and impairment charges of $15,274,784 (year ended February 29, 2020 - $55,079,314). 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 anticipates it will have sufficient cash on hand to service its liabilities and fund operating costs for the immediate future. However, there is uncertainty as to how long these funds will last. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. The Company believes that based on its cash flow forecasts, cash inflow from additional financing opportunities, revenues generated from current as well as new products entering the marketing place and the ability to reduce expenditures, it could continue as a going concern for the foreseeable future. However, when the Company can attain profitability and positive cash flows from operation is subject to material uncertainty.

2. Basis of presentation (continued)

b) Going concern (continued)

During the year ended February 28, 2021, the Company has significantly reduced expenditures through the reduction of staff, halt capital intensive cultivation, recognized management and streamline operations at the THR's facility. Subsequent to year end, management has closed a private placement of $2 million dollars (Note 27) and exploring additional financing in the form of debt, equity or a combination thereof to continue to continue its strategic operations and make capital investments. While the Company was successful in obtaining financing subsequent to its fiscal year, there can be no assurance that additional funds could be raised in the future.

Therefore, the Company may need to reschedule its current debt obligations and there can be no assurance that the existing debt obligations will be rescheduled. 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.

c) Basis of consolidation

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

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

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

d) Basis of measurement

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

e) Use of estimates and judgments

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

Going concern

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

Biological assets and inventory

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

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

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

(i) Cash generating units

Judgment is required to assess the Company's determination of cash generating units ("CGU") for the purpose of impairment testing.

(ii) Impairment of non-financial assets

The process to calculate the recoverable amount of each cash generating unit requires use of valuation methods such as the discounted cash flow method which uses assumptions of key variables including estimated cash flows, discount rates and terminal value growth rates. The Company applied judgment when determining which methods are most appropriate to estimate that value in use and fair value less costs of disposal for each CGU. Please see Notes 9, 10 and 11 for additional estimates and judgment applied by the Company in connection with the impairment of non-financial assets.

Goodwill and indefinite-life intangible assets impairment

Goodwill and indefinite-life intangible assets are reviewed for impairment at each reporting period or whenever events and circumstances indicate that the carrying amount may not be recoverable. Management judgment is required to identify the CGU of the Company.

Determining whether an impairment has occurred requires valuation of the respective CGU, which is estimated by using the recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest CGUs. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use.

Income taxes

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

Fair value of financial instruments

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

2. Basis of presentation (continued)

e) Use of estimates and judgments (continued)

Revenue and accounts receivable

The Company estimates whether certain vendors will exercise the right to early payment discounts based on past experience with each vendor. The Company also uses estimates to determine the likelihood of returns, price adjustments and discounts and rebates it may offer to distributors. This is based on trends observed by the Company related to its historical financial sales and industry practices. Due to the complexity in tax legislations, significant judgement is applied in the assessment of whether taxes are borne by the Company or collected on behalf of a third party impacting the net or gross presentation of revenue.

Share-based payments and warrants

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

Warrants

Significant estimates are used to determine the fair value of warrants issued by the Company. The Company typically uses a Black Scholes pricing model to determine the valuations. Refer to Notes 17 and 18 for further information.

Leases

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

f) Functional and presentation of foreign currency

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

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

3. Significant accounting policies

a) 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.

3. Significant accounting policies

a) Covid-19 Estimation Uncertainty (continued)

As a result, the Company has entered into the following transactions during the current fiscal year:

- Reduced operational spending by halting the cultivation of cannabis flower and trim;
- Entered into additional financing arrangements through loans and private placements;
- Entered into extension agreements for loan payables and convertible loans payable due in the current year;
- Settlement of interest payables, accounts payables and payroll indebtedness through issuance of the Company's common shares; and
- Applied and received various government grants and subsidies;

In addition, the Company is constantly evaluating the situation and monitoring any impacts or potential impacts on its business.

b) 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.

c) Biological assets

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

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

d) Cost of sales

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

3. Significant accounting policies (continue)

e) Inventories

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

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

f) Property, plant and equipment

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

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

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

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

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

g) Intangible assets

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

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

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

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

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

3. Significant accounting policies (continued)

h) Goodwill

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

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

i) Impairment of non-financial assets

Non-financial assets (other than biological assets and inventories) are reviewed for indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. Goodwill is tested for impairment annually in the fourth quarter or more often if events or circumstances indicate there may be an impairment. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). Goodwill arising from a business combination is allocated to the CGU or group of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other non-financial assets in the CGU, excluding biological assets and inventories, on a pro-rata basis. Impairment losses in respect of goodwill are not subsequently reversed. For other non-financial assets excluding biological assets and inventories, an impairment loss is subsequently reversed only to an amount that is the lesser of the revised estimate of recoverable amount, and the carrying amount, net of depreciation or amortization, that would have been recorded at the date of the reversal had no impairment loss been recognized previously. The Company has one CGU for the years ended February 28, 2021 and February 29, 2020 for the cultivation and sale of recreational cannabis in Canada. In addition to reviewing for indicators of impairment, impairment testing is required at least on an annual basis as the CGU consist of goodwill and intangible asset with indefinite life.

j) Financial instruments

(i) Recognition and initial measurement

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

(ii) Classification and subsequent measurement

Financial Assets

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

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

3. Significant accounting policies (continued)

j) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

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

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

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

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

Financial Assets – Subsequent measurement and gains and losses

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

Financial Liabilities

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

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

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

3. Significant accounting policies (continued)

j) Financial instruments (continued)

(iii) Derecognition

Financial Assets

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

Financial Liabilities

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

Transaction Costs

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

(iv) Offsetting

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

k) Business combinations

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

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

3. Significant accounting policies (continued)

k) Business combinations (continued)

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

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

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

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

The amendments were as follows:

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

l) Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on financial assets measured at amortized cost, debt investments mandatorily measured at FVOCI, and contract assets – the Company had no debt investment measured at FVOCI and no contract assets as at February 28, 2021 and February 29, 2020.

When determining whether the credit risk of a financial asset has increased significantly and when estimating ECLs, the Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analyses, based on the Company's historical experience and informed credit assessment and including forward looking information.

3. Significant accounting policies (continued)

m) Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and is adjusted for certain re-measurements of the lease liability. The cost of the right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs, and if applicable, an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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

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

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

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

n) Convertible debentures

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

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

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

3. Significant accounting policies (continued)

o) Share capital

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

p) Revenue recognition

The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows the five-step model:

- Identifying the contract with a customer.
- Identifying the performance obligations.
- Determining the transaction price.
- Allocating the transaction price to the performance obligations.
- Recognizing revenue when/as performance obligations are satisfied.

Revenue from the direct sale of cannabis products for a fixed price is recognized when the Company transfers control of the good to the customer, which is at the point of delivery.

Revenue earned in Canada includes excise duties, which the Company pays as principal, but excludes sales taxes collected on behalf of tax authorities. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of expected price discounts, allowances for customer returns and certain promotional activities and similar items. A refund liability (included in accounts payable) is recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method)Generally, payment of the transaction price is due within credit terms that are consistent with industry practices.

q) Strategic business initiatives

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

r) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. All transactions are recorded under exchange value with the exception of the convertible bridge loan (Note 4) and related party loan (Note 15b) that is measured at fair value.

s) Segment reporting

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

3. Significant accounting policies (continued)

t) Loss per share

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

u) Income taxes

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

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

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

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

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

v) Share-based compensation

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

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

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

3. Significant accounting policies (continued)

w) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

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. For the year ended February 28, 2021, the Company received CEWS subsidies of $300,286 (February 29, 2020 – nil).

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. During the year ended February 28, 2021, the Company received CECRA subsidies of $21,713 (February 29, 2020 – nil).

The Company applied and obtained revolving lines of credit from the Government of Canada under the CEBA COVID-19 Economic Response Plan. The funding is granted in the form of an interest free revolving credit line of which up to $60,000 may be drawn per eligible entity. On December 1, 2021, the outstanding balance on the revolving line of credit line will be automatically convert to a non-revolving term loan. Effective January 1, 2023, any outstanding balance on the term loan shall bear interest at a rate of 5% per annum. The term loan matures on December 31, 2025. If 75% of the outstanding balance of the non-revolving term loan is repaid on or before December 31, 2022, the remaining 33% of the balance shall be forgiven.

The Company made an accounting policy choice under IAS 20 – Government Grants in which the lines of credit will be measured in accordance with IFRS 9 – Financial Instruments. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determine in accordance with IFRS 9 and the proceeds received.

x) New standards, interpretations and amendments not yet adopted by the Company

A number of new standards are effective for annual periods beginning on or after January 1, 2021 and earlier application is permitted. However, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements. The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

(i) Onerous contracts – Costs of Fulling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. The comparatives are not restated. The Company has determined that all contracts existing at February 28, 2021 will be completed before the amendments become effective.

(ii) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- Changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- Hedge accounting

(Expressed in Canadian Dollars)

4. Convertible bridge loan financing

On January 28, 2020, the Company secured a $1,000,000 private loan with Infusion Biosciences Inc., a related company where one of the shareholders is an officer of the Company. The loan carries an interest rate of 10% per annum accruing and compounding monthly, payable on or before October 24, 2020. The loan is evidenced by a secured convertible debenture (the "Convertible Debenture") that provides the lender with the right to convert the principal of the loan into units of the Company (the "Units") at a conversion price of $0.19 per Unit, subject to adjustment in accordance with the terms of the Convertible Debenture. Each Unit will consist of one common share in the capital of the Company (a "Common Share") and one Common Share purchase warrant (a "Warrant"), with each Warrant entitling the Lender to acquire one Common Share at an exercise price equal to $0.20 for a period of two years from date of issuance. Total proceeds of the Convertible Debenture, net of transaction costs was $947,207.

The Company measured the hybrid instrument at $1,519,164, with $819,287 assigned to the liability component of the Convertible Debenture calculated based on a discount rate of 21%, which is the estimate of the observable market rate for similar convertible debentures. The liability component is recorded at amortized cost using the effective interest rate of 26.45%.

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

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

The value of the Warrants was 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 the Units was 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 statements of loss and comprehensive loss. During the year ended February 28, 2021, the Company recognized a loss on convertible bridge loan financing of $491,429 (February 29, 2020 – $80,528).

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.

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 substantial 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 17.00% on October 22, 2020, and a $81,238 gain on extinguishment of loan was recorded.

During the year ended February 28, 2021, the Company incurred interest expense of $134,963 (February 29, 2020 – 11,134) and recorded accretion expense of $212,802 (February 29, 2020 – $23,672).

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

(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.

Consideration consisted of $5,025,060 in cash and the issuance of 36,857,676 common shares. Under the terms of the agreement, if the Company was unable to satisfy the cash payment consideration within 12 months following the acquisition date, the seller of IBS Canada had the discretion to settle the remaining balance with Sproutly Canada common shares, determined by the lower of a 25% discount to the 10 day volume weighted average trading price or $0.25 per share. As the remaining balance was contingent on whether the Company was able to raise additional financing, it was re-measured at a fair value of $4,479,759 based on management's judgment at that time as to when the amount would be paid. The common shares issued were valued at $19,112,328. On October 25, 2018, the Company settled the $4,525,000 of outstanding cash consideration.

The sellers are also entitled to an additional consideration of $4,975,000 in cash and 36,857,675 Sproutly Canada common shares if IBS Canada and SSM Partners are able to complete the milestones, as per the earn-out provisions of the agreement, within three years from the acquisition date. Earn-out provisions include the completion of a specified amount of cannabinoids using the APP technology and the Company obtaining analytical results of such cannabinoids that meet regulatory requirements for commercial sale of products within a specified jurisdiction. For the cash contingent consideration, if the Company is unable to settle the cash payment within 12 months from completion of the earn-out provision, the seller of SSM Partners has the discretion to settle the remaining balance with Sproutly Canada common shares determined by the lower of a 25% discount to the 10 day volume weighted average trading price or $0.25 per share. Both the deferred cash and equity contingent consideration amounts were valued on the date of acquisition at fair value of $4,618,483 and $17,300,007 respectively, based on management's judgment on the probability and timing of when the milestones will be completed. For equity contingent consideration, shares were discounted to present value using the put-option pricing models. These amounts will be evaluated every reporting period until completion.

On March 20, 2019, the Company completed the earn-out provision regarding the production of specified amount of cannabinoids using the APP technology and settled contingent consideration payable by paying the seller of SSM Partners $4,975,000. During the year ended February 28, 2021, the Company recognized changes in fair value of contingent consideration of nil (February 29, 2020 – $5,198) and a loss on settlement of contingent consideration of nil (February 29, 2020 – $296,965).

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

For accounting purposes, the acquisitions of IBS Canada and SSM Partners are accounted for as one aggregate transaction. IBS Canada has the licensing rights for the exclusive use of certain technology within specified jurisdictions for the development, use, ability to make, sell, offer for sale, import and export water soluble and oil based products from cannabis and hemp plants, while SSM Partners will provide the analytics to support the technology. As at February 28, 2021, 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%.

(Expressed in Canadian Dollars)

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

As part of the transaction, the Company acquired net liabilities of $1,520.

The changes in the carrying value of contingent considerations are as follows:

	Deferred contingent cash consideration
	$
As at February 28, 2019	4,672,837
Changes in fair value of contingent consideration	5,198
Settlement of contingent consideration	(4,678,035)
As at February 29, 2020	-
As at February 28, 2021	-

6. Accounts receivable

	February 28, 2021	**February 29, 2020**
	$	**$**
Trade receivables	48,356	283
GST and HST receivable	40,867	147,358
Other receivable	5,641	110,570
	94,864	**258,211**

7. Biological assets

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

	$
Balance at February 29, 2020	10,401
Production costs prior to harvest capitalized	31,579
Biological assets disposed prior to harvest	(23,074)
Changes in fair value less cost to sell due to biological transformation	24,701
Transferred to inventory upon harvest	(43,607)
Balance at February 29, 2021	**-**

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 February 28, 2021, the Company had fully harvested all of its biological assets.

(Expressed in Canadian Dollars)

8. Inventories

The following is a breakdown of inventory as at February 28, 2021:

	February 28, 2021 $	February 29, 2020 $
Dry cannabis	458,845	416,125
Supplies and consumables	9,199	59,540
	468,044	**475,665**

For the year ended February 28, 2021, the Company capitalized $265,673 of production costs (February 29, 2020 – $615,386) related to post-harvest activities and held 300,251 grams of dry cannabis (February 29, 2020 – 502,770 grams of dry cannabis and 175,498 grams of trim).

During the year ended February 28, 2021, the Company recognized cost of goods sold of $600,110 (February 29, 2020 – $790,676) and income related to changes in fair value of inventory sold of $199,547 (February 29, 2020 – expense of $411,313). In addition, the Company recognized an impairment of $255,705 (February 29, 2020 – $2,086,985) on specific harvests due to net book value exceeding its net realizable value as well as disposal of trim.

9. Impairment

The Company performs tests for impairment of its goodwill and indefinite life intangible assets on an annual basis, as set out in its accounting policy described in Note 3 or along with property, plant and equipment when there are indicators of impairment. As a result of an impairment assessment at February 28, 2021, a lower recoverable amount in comparison to the applicable carrying values was calculated for intangible assets and property, plant and equipment. The recoverable amount of these assets were assessed using fair value less cost of disposal, determined based on appraisal of the Company's non-financial assets considering market comparisons for other similar entities. As at February 28, 2021, the carrying amount of these assets were determined to be higher than its recoverable amount of $3,225,524 (February 29, 2020 – $13,499,656) for which a non-cash impairment charge of $11,743,875 (February 29, 2020 – $50,351,000) was recognized.

The non-cash impairment charge to intangible assets were $11,591,514 (February 29, 2020 – $40,767,081). The non-cash impairment charge to property, plant and equipment was $152,361 (February 29, 2020 – $8,261,375). For the year ended February 29, 2020, recorded a charge of $1,322,544 to the entire balance of goodwill.

10. 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, February 28, 2021	**1,098,550**	**10,233,485**	**87,423**	**-**	**803,773**	**12,223,231**

(Expressed in Canadian Dollars)

10. Property, plant and equipment (continued)

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated Depreciation and impairment	**$**	**$**	**$**	**$**	**$**	**$**
Balance, February 29, 2020	-	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	-	57,891	5,996	-	15,230	79,117
Disposal	-	-	-	(2,021)	(30,350)	(32,371)
Impairment	-	-	3,907	-	148,454	152,361
Balance, February 28, 2021	**-**	**8,106,513**	**87,423**	**-**	**803,773**	**8,997,709**
Net Book Value						
February 29, 2020	**1,098,550**	**2,180,763**	**9,903**	**-**	**165,789**	**3,455,005**
February 29, 2021	**1,098,550**	**2,126,972**	**-**	**-**	**-**	**3,225,522**

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 year ended February 28, 2021, $5,956 (February 29, 2020 - $135,666) of depreciation was capitalized.

During the year ended February 28, 2021, 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 28, 2021, the Company recognized non-cash impairment charges to its single CGU as described in Note 9. As a result, the Company recognized impairment of $152,361 (February 29, 2020 – $8,261,375) based on the carrying value being the higher of fair value less costs of disposal or nil on each class of property, plant and equipment.

11. Intangible assets and goodwill

	ACMR License	Technology License in Process	Goodwill	Total
Costs	**$**	**$**	**$**	**$**
Balance, February 28, 2019	6,631,931	46,012,157	1,322,544	53,996,632
Additions	-	-	-	-
Balance, February 29, 2020	6,631,931	46,012,157	1,322,544	53,996,632
Additions	-	-	-	-
Balance, February 28, 2021	**6,631,931**	**46,012,157**	**1,322,544**	**53,996,632**

	ACMR License	Technology License in Process	Goodwill	Total
Accumulated amortization and impairment	**$**	**$**	**$**	**$**
Balance, February 28, 2019	82,899	-	-	82,899
Amortization	165,798	-	-	165,798
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	36,796	-	-	36,796
Impairment	1,379,860	10,211,654	-	11,591,514
Balance, February 28, 2021	**6,631,931**	**46,012,157**	**1,322,544**	**53,966,632**
Net book value, February 29, 2020	**1,416,656**	**10,211,654**	**-**	**11,628,310**
Net book value, February 28, 2021	**-**	**-**	**-**	**-**

During the year ended February 28, 2021, the Company recognized non-cash impairment charges to its single CGU as described in Note 9. As a result, the Company recognized impairment of $11,591,514 (February 29, 2020 – $40,767,081) related to intangible assets and nil (February 29, 2020 – 1,322,544) related to goodwill.

(Expressed in Canadian Dollars)

12. 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 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 13(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 year ended February 28, 2021, the Company recognized finance lease income of $8,110 (February 29, 2020 – nil).

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

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

(a) Net investment in the lease

	$
Balance, February 29, 2020	-
Addition	90,237
Finance lease income	8,110
Payment received	(18,875)
Balance, February 28, 2021	79,472
Balance, February 28, 2021 – Current Portion	25,298
Balance, February 28, 2021 – Non-Current Portion	54,174

(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 February 28, 2021.

Contractual obligations	**Less than one year**	**One to five years**	**Total**
	$	**$**	**$**
Lease payments receivable	29,918	69,613	99,531

13. Leases

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

(a) Right-of-use assets

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

Costs	**$**
Balance, February 28, 2019	-
Additions	660,467
Disposal	(557,896)
Balance, February 29, 2020	102,571
Disposal	102,571
Balance, February 28, 2021	**-**

(Expressed in Canadian Dollars)

13. Leases (continued)

(a) Right-of-use assets

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, February 28, 2021	**-**
Net Book Value	
February 29, 2020	**87,437**
February 28, 2021	**-**

(b) Lease obligations

	$
Balance, February 28, 2019	-
Additions	534,121
Interest on lease liabilities	58,878
Principal payment on lease liabilities	(155,488)
Termination of lease	(340,114)
Balance, February 29, 2020	97,397
Interest on lease liabilities	12,951
Principal payment on lease liabilities	(29,307)
Balance, February 28, 2021	81,041

Current portion of lease labilities	**20,045**
Non-current portion of lease liabilities	**60,996**

(c) Maturity analysis of lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations and potential exposures as at February 28, 2021.

Contractual obligations	**Less than one year**	**One to five years**	**Total**
	$	**$**	**$**
Lease obligations recognized	29,918	72,231	102,149
Short-term leases not recognized(1)	10,000	-	10,000
	39,918	**72,231**	**112,149**

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

(d) Supplemental disclosure

The Company used an incremental borrowing rate of 14% to determine the present value of minimum lease payments. For the year ended February 28, 2021, the Company recognized $12,950 of interest expense (February 29, 2020 – $58,896) on lease obligations and $29,386 (February 29, 2020 – $214,703) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the year ended February 29, 2021, the total cash outflow relating to leases amount to $73,718 (February 29, 2020 - $414,134).

(Expressed in Canadian Dollars)

14. Accounts payable and accrued liabilities

	February 28, 2021	February 29, 2020
	$	$
Interest payable	379,573	244,522
Trade payables	1,852,350	1,067,158
Other payables	417,842	367,597
	2,649,765	**1,679,277**

15. Loans and borrowings

As at February 29, 2021, the Company held the following loans and borrowings:

		February 28, 2021	February 29, 2020
		$	$
Current			
Borrowings	(a)	-	150,000
Related party loan	(b)	829,283	-
Non-interest bearing loan with BNO Holdings Ltd.	(c)	150,000	-
Non-interest bearing loan with 1023409 B.C. Ltd.	(f)	45,448	45,448
Mortgage payable with 0982244 B.C. Ltd.	(g)	1,634,109	1,338,476
Interest bearing loan with 0982244 B.C. Ltd.	(g)	1,403,759	1,157,165
		4,062,599	**2,691,089**
Long-term			
Line of credit	(d)	48,206	-
		4,110,805	**2,691,089**

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	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	-	-	-	-	-	2,495,641	-	2,691,089
Issued	-	855,000	150,000	120,000	105,000	-	-	-	1,230,000
Modification of loan	-	(136,958)	-	(76,885)	-	-	-	-	(213,843)
Accretions	-	111,241	-	5,091	-	-	542,227	-	658,559
Repayment	(150,000)	-	-	-	(105,000)	-	-	-	(255,000)
February 28, 2021	**-**	**829,283**	**150,000**	**48,206**	**-**	**45,448**	**3,037,868**	**-**	**4,110,805**

(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 year ended February 28, 2021, the Company incurred interest expense of $7,397 (February 29, 2020 - $14,512).

15. Loans and borrowings (continued)

(b) Related party loan

The Company received unsecured, non-interest and on-demand related party loans from Infusion Biosciences Inc., a company owned by the current Chief Executive Officer. 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. Interest for the entire $855,000 will start accruing as at May 14, 2020 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 21.0%, which is the observable market rate for similar financial instrument and recorded at amortized costs using the effective interest rate of 32.2%.

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 be a substantial 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 20.2% on October 22, 2020, and a $65,217 gain on extinguishment of loan was recorded.

As at February 28, 2021, the Company has fully withdrawn $855,000 from the loan.

For the year ended February 28, 2021, the Company recognized a deferred gain of $40,400 (February 29, 2020 – nil), interest expense of $110,696 (February 29, 2020 – nil) and recorded accretion expense of $111,241 (February 29, 2020 – nil).

(c) Non-interest bearing loan with BNO Holdings Ltd.

On February 10, 2021, the Company received a related party loan from BNO Holdings Ltd., a company owned by the current Chief Executive Officer for $150,000. The loan is unsecured, bears no interest and is due on demand.

(d) Line of credit

The Company applied and obtained revolving lines of credit from the Government of Canada under the CEBA COVID-19 Economic Response Plan. The funding is granted in the form of an interest free revolving credit line of which up to $60,000 may be drawn per eligible entity. On December 1, 2021, the outstanding balance on the revolving line of credit line will be automatically convert to a non-revolving term loan. Effective January 1, 2023, any outstanding balance on the term loan shall bear interest at a rate of 5% per annum. The term loan matures on December 31, 2025. If 75% of the outstanding balance of the non-revolving term loan is repaid on or before December 31, 2022, the remaining 33% of the balance shall be forgiven.

The $120,000 of original loans were determined to be below fair market value, an estimate was completed to determine a third party interest rate of 21.0%. The loan was initially present valued and subsequently recorded at amortized cost using the effective interest rate of 21.4%.

During the year ended February 28, 2021, the Company recorded accretion expense of $5,091 (February 29, 2020 - nil).

(e) 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.

15. Loans and borrowings (continued)

(f) 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.

(g) 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 for the year ended February 28, 2019.

During the year ended February 28, 2021, the Company incurred interest expense of $175,000 (February 29, 2020 - $175,480), and recorded accretion expense of $295,634 (February 29, 2020 - $307,409).

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

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

During the year ended February 28, 2021, the Company incurred interest expense of $150,000 (February 29, 2020 - $150,411) and recorded accretion expense of $246,593 (February 29, 2020 - $198,793).

(h) Interest bearing loan with 2546308 Ontario Inc.

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

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

During the year ended February 28, 2021, the Company incurred interest expense of $nil (February 29, 2020 - $105,822).

(Expressed in Canadian Dollars)

16. 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	(445,368)	(81,238)	(526,606)
Accretion	1,086,365	212,802	1,299,167
Conversion	(5,699,947)	-	(5,699,947)
Balance, February 28, 2021	**1,943,432**	**974,523**	**2,917,955**

(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 convertible debentures bear interest at a rate of 8.0% per annum for the date of the offering, payable semi-annually and matures on October 24, 2020. The holder has the option to convert the debentures into common shares at a conversion price of $0.75 at any time prior to maturity. The convertible debentures can be redeemed, in whole or in part, by the Company at any time following the date that is 12 months from the date of issuance at a price equal to the outstanding principal amount plus all accrued and unpaid interest up to the redemption date.

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 carrying 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.

On September 23, 2020, the Company and the debenture holders entered into a third supplemental indenture approving a new conversion price of $0.05 per share and extended the maturity date of the loan from October 24, 2020 to April 24, 2021. The change was deemed to be a substantial 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 19.05% on September 23, 2020, and a $445,368 gain on extinguishment of loan was recorded.

For year ended February 28, 2021, $6,250,000 of convertible debentures were converted to 82,659,519 common shares of the Company with a combined carrying value of $5,699,947. The Company incurred interest expense of $413,346 (February 29, 2020 – $701,995) and accretion expense of $1,086,365 (February 29, 2020 – 1,577,827).

During the year ended February 28, 2921, the Company settled outstanding interest payable of $488,896 by issuing 9,009,186 common shares with settlement prices ranging from $0.05 to $0.06 per share. As certain interest settlements occurred when the market share price was either higher or lower than the settlement price, the Company recognized a loss on extinguishment of interest of $59,433.

(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 and required to assign a fair value to the debt and equity portion of the conversion feature 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 26.45%.

16. Convertible loans payable (continued)

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.

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 substantial 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 17.00% on October 22, 2020, and a $81,238 gain on extinguishment of loan was recorded.

During the year ended February 28, 2021, the Company recognized a loss on convertible bridge loan financing of $491,429 (February 29, 2020 – $80,528).

For the period ended February 28, 2021, the Company incurred interest expense of $134,963 (February 29, 2020 – 11,134) and recorded accretion expense of $212,802 (February 29, 2020 – $23,672).

17. Share Capital

(a) Authorized

Unlimited number of common shares without par value

(b) Escrow Shares

Pursuant to an escrow agreement dated July 6, 2018, 36,255,898 common shares of the Company were deposited into escrow with respect to the reverse acquisition. Under the escrow agreement, 10% of the escrowed common shares were released on November 6, 2018 and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of February 28, 2021, 5,385,885 shares were held in escrow.

(c) Issued and outstanding

Transactions for year ended February 28, 2021

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 15(a)).

On August 24, 2020, the Company issued 1,500,000 shares as part of a $105,000 non-brokered private placement (Note 15(e)).

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.

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 year ended February 28, 2021, $6,250,000 of convertible debentures and $488,896 of interest payables were converted to 82,659,519 and 9,009,186 common shares of the Company respectively (Note 16(i)).

(Expressed in Canadian Dollars)

17. Share Capital (continued)

(c) Issued and outstanding (continued)

Transactions for year ended February 29, 2020

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

During the year ended February 29, 2020, 400,500 options were exercised for gross proceeds of $137,005. Non-cash compensation of $112,419 was reclassified from reserves to share capital on exercise of these options (Note 18).

During the year ended February 29, 2020, 2,233,719 warrants were exercised for gross proceeds of $1,584,918. Non-cash compensation of $94,946 was reclassified from reserves to share capital on the exercise of these warrants.

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

On June 11, 2019, the Company issued 4,716,606 common shares to 2546308 Ontario Inc. to settle $3,125,000 of outstanding loan and $412,455 of interest (Note 15(h)).

On September 19, 2019, the Company issued 36,857,675 common shares to sellers of IBS Canada and SSM Partners upon the completion of the equity earn-out provision (Note 5).

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

As at February 28, 2021, there were 326,910,820 (February 29, 2020 – 227,951,248) 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, February 28, 2021	**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 29, 2020	**14,076,138**	**$0.87**

(Expressed in Canadian Dollars)

17. Share Capital (continued)

(d) Share purchase warrants

The following table summarizes the warrants that remain outstanding as at February 28, 2021:

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 February 29, 2020:

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

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 the Company's common shares. The expected life in years represents the period of time that warrants issued are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

(e) Equity Special Warrant Units

As part of the Special Warrants Bought Deal Financing (Note 16(i)), each Equity Special Warrant Units when exercised entitles the holder of one-half common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized value of nil in warrant reserves related to the share purchase warrants. On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised and 7,700,000 of share purchase warrants were issued. For the year ended February 28, 2021, nil (February 29, 2020 – 1,396,052) warrants were exercised. As at February 2021, 2021, 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 year ended February 28, 2021, there were no Broker Equity Units exercised (February 29, 2020 – 20,247) and the remaining 1,057,753 units have expired. For the year ended February 29, 2020, the Company issued 20,247 common shares and 10,124 common share purchase warrants.

(Expressed in Canadian Dollars)

17. Share Capital (continued)

(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 $0.07 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 year ended February 28, 2021, nil Units were exercised (February 29, 2020 – nil).

(g) Private Placement

As part of the non-brokered private placement (Note 15(e)), 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 year ended February 28, 2021, nil warrants were exercised (February 29, 2020 – nil).

18. Share-based compensation

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

	Stock Options #	Weighted Average Exercise Price $
Balance, February 29, 2020	15,589,807	$0.34
Granted	8,270,000	$0.09
Expired	(150,000)	$0.20
Forfeited	(5,739,703)	$0.45
Balance, February 28, 2021	**17,970,104**	**$0.19**

During the year ended February 28, 2021, the Company granted 8,270,000 stock options (February 29, 2020 – 125,000) with a fair value of $417,364 (February 29, 2020 - $45,878). Of the 8,270,000 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 5,120,000 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.

For the year ended February 28, 2021, 5,739,703 of stock options were forfeited due to termination of employees and contractors as well as voluntary forfeiture by the current CEO as part of the Company's restructuring initiatives.

During the year ended February 28,2021, nil stock options (February 29, 2020 – 400,500) were exercised for proceeds of nil (February 29, 2020 - $137,005). The weighted average share price at the dates the options were exercised during the period ended February 29, 2020 was $0.84 per share.

(Expressed in Canadian Dollars)

18. Share-based compensation (continued)

	Stock Options #	Weighted Average Exercise Price $
Balance, February 28, 2019	15,915,307	$0.34
Granted	125,000	$0.58
Exercised	(400,500)	$0.34
Cancelled	(50,000)	$0.62
Balance, February 29, 2020	**15,589,807**	**$0.34**

The following table summarizes the stock options that remain outstanding as at February 28, 2021:

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	1,927,906
0.01	50,965	April 18, 2027	50,965
0.25	3,906,546	March 25, 2027	3,581,000
0.25	1,300,000	July 6, 2028	1,133,335
0.60	275,000	July 6, 2028	229,170
0.67	800,000	August 1, 2028	666,666
0.62	265,000	November 6, 2028	176,664
0.44	525,000	December 11, 2023	349,998
0.60	375,000	December 11, 2023	250,000
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	808,333
0.06	900,000	October 26, 2025	900,000
0.06	1,350,000	October 26, 2025	-
0.05	620,000	February 4, 2026	-
	17,970,104		**13,398,724**

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

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
0.02	150,000	May 5, 2020	150,000
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	980,864
0.01	50,965	April 18, 2027	17,143
0.25	4,058,749	March 25, 2027	2,029,375
0.25	2,500,000	July 6, 2028	125,001
0.60	375,000	July 6, 2028	300,003
0.67	2,800,000	August 1, 2028	1,399,998
0.62	737,500	November 6, 2028	245,830
0.44	1,475,000	December 11, 2023	491,664
0.60	375,000	December 11, 2023	125,000
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	10,833
0.27	30,000	November 5, 2024	30,000
	15,589,807		**8,075,398**

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)	$0.05-0.10	$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	0.32% to 0.78%	1.43% to 1.49%

(Expressed in Canadian Dollars)

18. Share-based compensation (continued)

Volatility was estimated by using the historical volatility of the Company's common shares. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

19. Related party transactions 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 year ended February 29, 2021 are as follows:

	February 28, 2021	**February 29, 2020**
	$	**$**
Management compensation(i)(ii)	315,243	997,562
Share-based payments(iii)	511,343	1,124,055
	826,586	**2,121,617**

(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 February 28, 2021, the Company owed $279,415 to key management personnel and directors recorded in accounts payable and accrued liabilities.

(iii) Share-based payments are the fair value of options granted and vested to key management personnel and directors of the Company under the Company's stock option plan (Note 18).

(b) Related party loan

The Company entered into an $855,000 secured loan agreement from Infusion Biosciences Inc., a company owned by the current Chief Executive Officer (Note 15(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) Non-interest bearing loan with BNO Holdings Ltd.

On February 10, 2021, the Company received a related party loan from BNO Holdings Ltd., a company owned by the current Chief Executive Officer for $150,000. The loan is unsecured, bears no interest and is due on demand (Note 15(c)).

(e) Contingent consideration payable

The Company settled a contingent consideration payable to a related party on March 20, 2019 of $4,975,000 as part of the acquisition of SSM Partners. For the year ended February 28, 2021, the Company recognized a change in fair value of contingent consideration of nil (February 29, 2020 –$5,198) and a loss on settlement of contingent consideration of nil (February 29, 2020 –$296,965).

(Expressed in Canadian Dollars)

20. General and administration

	February 28, 2021	February 29, 2020
	$	$
Professional fees	325,367	1,416,131
Office and administration	652,702	1,665,535
Wages	661,639	2,214,636
Investor relations	57,147	964,025
	1,696,855	**6,260,327**

21. Finance and other costs

	February 28, 2021	February 29, 2020
	$	$
Accretion expense	1,957,725	2,107,701
Bank charges	4,296	25,719
Interest expense	995,925	1,216,960
	2,957,946	**3,350,380**

22. Financial instruments and risk management

(a) Fair values of financial instruments

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

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

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

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

When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. As at February 28, 2021, cash, trade receivables, accounts payable and accrued liabilities, on-demand loans approximate their fair value due to their short-term nature. The initial fair value of the Company's loans and borrowings as well as convertible loans payable have been measured using Level 3 valuation methods and are classified at amortized costs and accounted for using the effective interest rate method.

The carrying values of financial instruments as at February 28, 2021 are summarized in the following table:

	Amortized Costs	FVTPL	Total
Financial assets			
Cash	$ 171,818	-	$171,818
Accounts receivable	94,864	-	94,864
Financial liabilities			
Accounts payable and accrued liabilities	2,649,765	-	2,649,765
Loans and borrowings	4,110,805	-	4,110,805
Convertible loans payable	2,917,955	-	2,917,955

(Expressed in Canadian Dollars)

22. Financial instruments and risk management

The carrying values of financial instruments at February 29, 2020 are summarized in the following table:

	Amortized Costs	FVTPL	Total
Financial assets			
Cash	$ 32,287	-	$32,287
Accounts receivable	258,211	-	258,211
Financial liabilities			
Accounts payable and accrued liabilities	1,679,277	-	1,679,277
Loans and borrowings	2,691,089	-	2,691,089
Convertible loans payable	7,845,341	-	7,845,341

(b) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Receivables are comprised of 43% GST and HST. The Company has assessed ECL in accordance to IFRS 9 and management determined ECL to be nominal due to the type of receivables held.

(c) Concentration risk

Excluding GST and HST receivables, the Company's accounts receivables are primarily due from six provincial government agencies representing 100% (February 29, 2020 – 26%) of total revenue year ended February 28, 2021.

(d) Liquidity risk

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

Since incorporation, the Company's primary source of funding has been through debt and equity. The Company's access to financing is always uncertain. As at February 28, 2021, the Company had current assets of $918,264 to settle current liabilities of $9,702,447.

The Company has the following undiscounted loan obligations as at February 28, 2021, which are expected to be payable in the following respective periods:

	$
Less than 1 year	7,300,448
1 to 3 years	120,000
	7,420,448

Subsequent to the year ended February 28, 2021, the Company is closely monitoring its risks to its operations due to the outbreak of COVID-19. Factors that could impact production, prices or demand of its products that can materially impact cash the Company's cash flow from operations, which could result in a cash shortfall and/or default in financial obligations.

(e) Interest rate risk

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

(Expressed in Canadian Dollars)

23. Capital management

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

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

24. Income tax

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

	February 28, 2021 $	**February 29, 2020** $
Loss before taxes	(16,828,703)	(62,748,138)
Canadian provincial statutory tax rate	27.00%	27.00%
Expected income tax recovery	(4,543,750)	(16,941,997)
Non-deductible items	65,523	501,504
Impairment of intangible asset	2,757,146	13,595,463
Settlement of convertible debt	(116,010)	(201,952)
Settlement of borrowings	(1,694)	-
Change in tax rates	-	17,357
Other	(623)	45,936
Foreign tax rate difference	48,802	82,311
Change in estimates	(3,682,252)	(72,251)
Change in deferred tax asset not recognized	5,056,102	1,836,484
Total income tax recovery	(416,756)	(1,137,144)
Current tax recovery	-	-
Deferred tax recovery	(416,756)	(1,137,144)
	(416,756)	(1,137,144)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The deferred tax assets and liabilities as at February 28, 2021 and February 29, 2020 are comprised of the following:

	February 28, 2021 $	**February 29, 2020** $
Non-capital loss carryforwards	87,124	2,632,555
Intangible assets	-	(1,691,557)
Lease liability	-	23,608
Right-of-use assets	-	(23,608)
Biological assets	-	8,762
Property, plant and equipment	-	(430,563)
Convertible debt	-	(379,258)
Deferred loss on derivative		(132,686)
Loan payable	(65,666)	(424,009)
Net investment in the lease	(21,458)	-
Net deferred tax liability	-	(416,756)

(Expressed in Canadian Dollars)

24. Income tax (continued)

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

	February 28, 2021 $	February 29, 2020 $
Canada		
Property, plant and equipment	5,519,183	42,554
Loan receivables	984,461	984,461
Lease liability	81,041	9,958
Financing costs	1,041,564	1,484,219
Inventories	63,721	-
Convertible loans payable	(56,569)	-
Interest payable	255,971	-
Other	3,490	-
Non-capital losses	23,499,828	9,876,368
	31,392,690	**12,397,560**

	February 28, 2021 $	February 29, 2020 $
Barbados		
Tax losses	769,480	630,842
	769,480	**630,842**

The Company has not recognized a deferred tax asset in respect of tax loss carryforwards of approximately $23,499,828 which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	Sproutly Canada Inc. $	Toronto Herbal Remedies Inc. $	Sproutly Inc. $	Total $
Expiry				
2041	706,567	1,418,439	966,889	3,091,895
2040	2,428,943	3,871,235	3,126,004	9,426,182
2039	1,750,135	2,364,973	1,599,324	5,714,432
2038	1,197,508	719,919	-	1,917,427
2037	1,173,167	727,483	-	1,900,650
2036	-	1,190,339	-	1,190,339
2035	-	258,903	-	258,903
	7,256,320	**10,551,291**	**5,692,217**	**23,499,828**

The Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $769,480 which may be carried forward to apply against future year income tax for Barbados income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

	SSM Partners Inc. $
Expiry	
2028	142,956
2027	385,184
2026	241,340
	769,480

25. Loss per share

	February 28, 2021 $	February 29, 2020 $
Net loss	16,411,947	61,610,994
Weighted average number of common shares outstanding – basic and diluted	270,552,467	205,112,854
Basic and diluted loss per share	0.06	0.30

26. Commitments

On January 1, 2021 the Company entered into a one year building lease agreement for monthly payments of $1,000 expiring on December 31, 2021. Future lease payments of the remaining lease are $10,000.

In accordance with the simplified transition approach and practical expedients applied, the Company elected not to recognize right-of-use assets and lease liabilities for short-term leases for this lease.

27. Subsequent events

On March 15, 2021, the Company announced it closed the first tranche of a financing of up to $2 million. Under the first tranche of the private placement, the Company issued 11,050,000 units of the Company (the "Units") at a price of $0.05 per Unit for gross proceeds of $552,500, with each Unit consisting of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to acquire an additional common share at an exercise price of $0.07 for a period of two years from the date of issue. All securities issued in connection with the private placement are subject to a four month and a day transfer restriction from the date of issuance. The placement was completed for the purposes of supporting the Company's general working capital. Under the first tranche of the private placement, in consideration for their services, the Company paid finder's fees in the amount of $24,863 through the issuance of 497,250 Units on the same terms as described above.

On April 15, 2021, the Company announced that it closed the second and final tranche of its financing. Under the final tranche of the private placement, the Company issued 15,916,037 units of the Company (the "Units") at a price of $0.05 per Unit for gross proceeds of approximately $795,802, with each Unit consisting of one common share and one non-transferable common share purchase warrant. Each warrant entitles the holder to acquire an additional common share at an exercise price of $0.07 for a period of two years from the date of issue. All securities issued in connection with the private placement are subject to a four month and a day transfer restriction from the date of issuance. The placement was completed for the purposes of supporting the Company's general working capital. In connection with the private placement, in consideration for their services, the Company paid finder's fees in the amount of $22,500 through the issuance of 450,000 Units on the same terms as described above. Under the private placement, Dr. Arup Sen, Chief Executive Officer and Director of the Company, purchased 3,000,000 Units through a company controlled by Dr. Sen. His participation is considered to be a "related party transaction" as defined under Multilateral Instrument 61-101 ("MI 61-101").

On April 20, 2021, the Company announced it executed the definitive agreement (the "Agreement") with CannaHive Inc. ("CannaHive). This agreement finalizes the commercial arrangement with CannaHive to produce Cannabis 2.0 products at THR's licensed facility. The Agreement allows Sprouty to utilize CannaHive's proprietary manufacturing and packaging equipment and intellectual property to manufacture cannabis infused confectionaries, such as gummies and candies, along with their unique cannabis dissolvable powder, at the THR facility.

On April 22, 2021, the Company announced that it had entered into a fourth supplemental indenture dated April 22, 2021 (the "Fourth 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 as further amended by the third supplemental indenture dated September 23, 2020 (the "Third Supplemental Indenture", and together with the Original Indenture, the First Supplemental Indenture and the Second Supplemental Indenture, the "Indenture") providing for the issuance of 8.0% senior unsecured convertible debentures in the aggregate principal amount of $10,750,000 (Note 16(i)). In connection with the execution of the Fourth Supplemental Indenture, the Company has extended the maturity date from April 24, 2021 to April 24, 2022.

On May 6, 2021, the Company granted 2,200,000 stock options with an exercise price of $0.06 expiring on May 6, 2026. Out of the 2,200,000 granted, 300,000 will vest immediately on the date of grant, and 200,000 on the 1st of each month beginning on Jun 1, 2021. The remaining 500,000 stock options will vest in tranches of one-sixth every six months from the date of grant.

On May 7, 2021, the Company announced it had completed the formulation of its initial beverage products and filed with Health Canada its NNCP notification related to cannabis-infused beverages utilizing cannabis extracts produced by the APP Technology.

27. Subsequent events (continued)

On May 10, 2021, the Company announced that it and Infusion Biosciences Inc. ("Infusion") have entered into agreements to extend the maturity dates of both the $1,000,000 Convertible Bridge Loan Financing (Note 4) to the Company on January 28, 2020 and the $855,000 Related Party Loan (Note 15(b)) on August 24, 2020, collectively the "Infusion Loans" from April 24, 2021 to April 24, 2022. The Convertible Bridge Loan Financing is evidenced by a secured convertible debenture in the principal amount of $1,000,000 (the "January Debenture") which provides Infusion with the right to convert the principal and accrued interest on the January Infusion Loan into units of the Company (each, a "Unit") at a conversion price of $0.07 per Unit. Each Unit is comprised of one common share of the Company and one common share purchase warrant of the Company, with each such warrant convertible into one common share of the Company at an exercise price equal to $0.08 per share for a period of two years from the date of issue. In connection with the Related Party Loan, Sproutly has also issued a secured convertible debenture in the principal amount of $855,000 (the "May Debenture"), which provides Infusion with the right to convert the principal and accrued interest on the August Infusion Loan into Units on the same terms as the January Debenture. The May Debenture and the securities issuable upon conversion of the May Debenture are subject to a minimum four-month hold period and restrictions on transfer under Canadian securities law.

On May 13, 2021, the Company announced it had executed a Definitive Agreement (the "Agreement") with Cannabis Manufacturer's Guild Ltd. ("CMG"). The Agreement allows Sproutly to utilize brands developed by CMG and its affiliates and expand its innovative product portfolio (the "Acquired Products") that will be produced and sold through THR. Sproutly will leverage CMG's expertise in branding, commercialization, and distribution of cannabis products for underserved categories in the Canadian market. The Agreement will allow Sproutly to sell the Acquired Products and also facilitate potential business-to-business sales of Sproutly's proprietary whole plant extracts to CMG's network of Guild members.

On June 3, 2021, the Company announced that, pursuant to a convertible debenture indenture dated October 24, 2018 between the Company and TSX Trust Company, as trustee, which has been amended pursuant to a first supplemental indenture dated April 24, 2020, a second supplemental indenture dated July 23, 2020, a third supplemental indenture dated September 23, 2020 and a fourth supplemental indenture dated April 22, 2021 (collectively, the "Indenture"), the Company has received a request to convert a principal amount of $250,000 (the "Principal") under the Indenture. Pursuant to the terms of the Indenture, all accrued and unpaid interest ("Interest") on the converted Principal also becomes due and payable and the Company intends to settle $8,222 in Interest through the issuance of 91,358 common shares in the capital of the Company at a price of $0.09 per Settlement Share. The holder of the convertible debenture voluntarily elected to satisfy the Interest with common shares of the Company which will allow the Company to preserve its cash for future operations.

On June 30, 2021, the Company announced that it intended to settle $70,000 of the Indenture accrued interest through the issuance of 1,166,666 common shares at a price of $0.06 per share.