Sproutly Canada Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three months ended May 31, 2021 and May 31, 2020
(In Canadian Dollars)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements. These unaudited interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS").

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Financial Position
As at May 31, 2021 and February 28, 2021
(Unaudited – Expressed in Canadian Dollars)

	Notes	May 31, 2021	February 28, 2021
			$
Assets			
Current Assets			
Cash		386,392	171,818
Accounts receivable	5	137,745	94,864
Inventories	7	284,646	468,044
Prepaid and other assets		159,821	158,240
Net investment in the lease	10	24,569	25,298
Deferred loss	14(ii), 14(iii)	613,435	-
		1,606,608	918,264
Non-Current Assets			
Property, plant and equipment	8	3,218,003	3,225,522
Net investment in the lease	10	50,328	54,174
Total assets		**4,874,939**	**4,197,960**
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	12, 18	2,110,966	2,649,765
Deferred revenue		116,774	48,593
Lease obligations	11	21,130	20,045
Loans and borrowings	13	3,248,600	4,062,599
Convertible loans payable	14	3,043,682	2,917,955
Deferred gain	13	-	3,490
		8,541,152	9,702,447
Non-Current Liabilities			
Lease obligations	11	57,861	60,996
Loans and borrowings	13	50,019	48,206
Total liabilities		**8,649,032**	**9,811,649**
Equity			
Share capital	16	81,722,213	80,120,572
Reserves		8,232,830	7,549,221
Accumulated other comprehensive loss		78,443	38,229
Accumulated deficit		(93,807,579)	(93,321,711)
Total deficit		**(3,774,093)**	**(5,613,689)**
Total liabilities and equity		**4,874,939**	**4,197,960**

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

Approved on behalf of the board July 30, 2021

"Arup Sen" , Director

"Con Constandis" , Director

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended May 31, 2021 and 2020
(Unaudited – Expressed in Canadian Dollars)

	Notes	2021	2020
		$	$
Revenue		318,902	25,875
Excise duties		(85,637)	(36,693)
Net revenue		233,265	(10,818)
Cost of sales	7	195,619	63,860
Loss related to inventory impairment	7	29,299	-
Gross profit (loss) before fair value adjustments of biological assets		8,347	(74,678)
Realized fair value adjustments on inventory sold	7	(2,137)	(24,471)
Unrealized gain on changes in fair value of biological assets	6	-	(24,701)
Gross profit (loss)		10,484	(25,506)
Operating Expenses			
General and administration	18	485,932	554,271
Marketing		8,813	7,358
Depreciation and amortization	8, 9, 10	14,682	28,935
Share-based payments	16	9,724	319,269
Total operating expenses		519,151	909,833
Loss from Operations		508,667	935,339
Other Expenses (Income)			
Other expense (income)		(28,805)	19,307
Finance and other costs	19	583,307	862,789
Foreign exchange		29,051	(15,131)
Gain on extinguishment and modification of loans	13(b), 14(i), 14(ii)	(651,488)	-
Recognition of deferred loss on convertible loan financing	14(ii), 14(iii)	48,626	189,964
Recognition of deferred gain on related party loan	13(b)	(3,490)	(1,003)
		(22,799)	1,055,926
Net loss for the year		485,868	1,991,265
Other comprehensive loss			
Other Comprehensive loss that may be reclassified to net loss			
Foreign currency translation loss		40,214	16,243
Total comprehensive loss for the year		**526,082**	**2,007,508**
Basic and diluted loss per share		(0.00)	(0.01)
Weighted average number of shares outstanding			
Basic and diluted		344,911,913	235,336,444

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Changes in Equity
For the three months ended May 31, 2021 and 2020
(Unaudited – Expressed in Canadian Dollars)

	Notes	Share Capital		Reserves						
		Common Shares	Amount	Share-Based Compensation	Warrants	Convertible Notes Reserves	Total Reserves	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
		#	$	$	$	$	$	$	$	$
Balance, February 29, 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)
Net loss and comprehensive loss for the period		-	-	-	-	-	-	-	(485,868)	(485,868)
Conversion of notes	14(i)	4,166,666	216,196	-	-	(6,717)	(6,717)	-	-	209,479
Private placement	4, 15(c)	26,966,037	1,326,548	-	-	-	-	-	-	1,326,548
Finder's fee on private placement	4, 15(c)	947,250	47,363	-	-	-	-	-	-	47,363
Issuance of shares interest repayments	14(i), 15(c)	15,185	987	-	-	-	-	-	-	987
Equity feature of related party convertible loan payable	14(iii)	-	-	-	-	662,061	662,061	-	-	662,061
Stock option exercise	15(c), 16	50,965	10,547	(10,297)	-	-	(10,297)	-	-	40,214
Foreign currency translation		-	-	-	-	-	-	40,214	-	250
Share-based compensation	16	-	-	38,562	-	-	38,562	-	-	38,562
Balance, May 31, 2021		359,056,923	81,722,213	4,105,773	2,896,325	1,230,732	8,232,830	78,443	(93,807,579)	(3,774,093)

	Notes	Share Capital		Reserves						
		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 period		-	-	-	-	-	-	-	(1,991,265)	(1,991,265)
Conversion of notes	15(c)	28,676,189	2,817,861	-	-	(140,668)	(140,668)	-	-	2,677,193
Foreign currency translation		-	-	-	-	-	-	(16,243)	-	(16,243)
Share-based compensation	16	-	-	335,973	-	-	335,973	-	-	335,973
Balance, May 31, 2020		256,627,437	76,006,023	4,247,389	2,896,325	636,212	7,779,926	(16,243)	(78,901,029)	4,868,677

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

Sproutly Canada Inc.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended May 31, 2021 and 2020
(Unaudited – Expressed in Canadian Dollars)

	Notes	Three Months Ended May 31, 2021	2020
		$	$
Cash Provided by (used in) Operating Activities			
Net loss		(485,868)	(1,991,265)
Adjusted for non-cash items			
Realized fair value adjustments on inventory sold		(2,137)	(24,471)
Unrealized gain on changes in fair value of biological assets	6	-	(24,701)
Loss related to inventory impairment	7	29,299	-
Depreciation of property, plant and equipment	8, 10	14,682	19,736
Amortization of intangible asset	9	-	9,199
Share-based compensation	16	38,562	335,973
Accretion expense	19	334,046	588,765
Financing fees	4	47,363	-
Finance lease income	10	(2,798)	-
Interest expense on lease obligations	11	2,866	3,476
Gain on extinguishment and modification of loans	13(b), 14(i), 14(ii)	(651,488)	-
Loss on convertible loan financing	14(ii), 14(iii)	48,626	189,964
Gain on related party loan	13(b)	(3,490)	(1,003)
Change in non-cash operating working capital			
Trade receivables		(5,866)	(15,001)
GST receivables		29,629	52,719
Other receivables		(66,644)	75,001
Biological assets		-	(93,985)
Inventories		156,259	40,286
Prepaid expenses		(1,581)	12,932
Accounts payable and accrued liabilities		(251,548)	691,786
Deferred revenue		68,181	-
		(701,907)	(130,589)
Proceeds from (repayment of) Financing Activities			
Sublease payment received	10	7,373	-
Private placement	4	1,030,746	-
Lease obligations	11	(4,916)	(7,214)
Related party non-interest bearing loan with BNO Holdings Ltd.	13(c)	(150,000)	-
On-demand loan	13(e)	-	105,000
Related party loan	13(b)	-	130,000
Line of credit	13(d)	-	40,000
Shares issued for option exercise	15(c), 16	250	-
		883,453	267,876
Cash Provided by (Used in) Investing Activities			
Purchase of property, plant and equipment		(7,186)	(2,510)
		(7,186)	(2,510)
Foreign exchange		40,214	(16,243)
Net change in cash		214,574	118,804
Cash, beginning of period		171,818	32,287
Cash, ending of period		**386,392**	**151,091**
Supplemental disclosure of cash flow information			
Cash paid during the period for interest		80,137	81,027

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

1. Nature and continuance of operations

Sproutly Canada Inc. (on a consolidated basis "the Company" or "Sproutly Canada"), was incorporated on January 26, 2012, under the British Columbia Business Corporations Act. On July 6, 2018, the Company acquired Sproutly Inc. ("Sproutly") through a reverse acquisition transaction. 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 had ceased all cultivation activities and harvested all biological assets to inventory.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic, which led to unprecedented impacts on both the Company and the world. When lockdowns first began in March of 2020, the Company's cannabis sale declined significantly and several key financing opportunities came to an immediate halt.

As a result, the Company took drastic measures to ensure its viability as it:

- Reduced operational spending by halting the cultivation of flower and trim;
- Entered into financing arrangements through loans and private placements with key investors and related parties;
- 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

The ultimate extent of the impact of the continuing impact of COVID, as well as any other epidemic, pandemic or other health crisis on the Company's business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of such epidemic, pandemic or other health crisis and actions taken to contain or prevent their further spread, among others. These and other potential impacts of an epidemic, pandemic or other health crisis, such as COVID-19, have had a material impact on the Company's revenues, net loss and working capital. These impacts and future impacts could have additional material and adverse effects on the Company's business, financial condition and results of operations.

2. Basis of presentation

a) Going concern

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

As of May 31, 2021, the Company had a working capital deficit of $6,934,544 (February 28, 2021 - $8,784,183) and an accumulated deficit of $93,807,579 (February 28, 2021 - $93,321,711). During the three months ended May 31, 2021, the Company used cash in operating activities of $701,907 (May 31, 2020 - $130,589), resulting primarily from the net loss of $485,868 (May 31, 2020 - $1,991,265) offset by items not affecting cash such as depreciation, amortization and stock based compensation of $216,039 (May 31, 2020 - $1,860,676). The Company's ability to continue as a going concern is dependent upon its ability to obtain sufficient additional funding and to generate sufficient revenues and positive cash flows from its operating activities to meet its obligations and fund its planned investments and operations.

The Company may need to reschedule its current debt obligations or obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that the existing debt obligations will be rescheduled or that additional funding will be available to the Company, or, if available, that this financing will be on acceptable terms. If existing debt obligations are not rescheduled or adequate financing is not available, the Company may be required to delay or reduce the scope of any or all of its projects. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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

b) Interim Financial Reporting

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The same accounting policies and methods of computation were followed in the preparation of these condensed interim consolidated financial statements as those disclosed in the Company's annual audited consolidated financial statements for the year ended February 28, 2021.

These condensed interim consolidated financial statements do not include all of the information required for full annual consolidated financial statements and accordingly should be read in conjunction with the annual audited consolidated financial statements for the year ended February 28, 2021, which are made available on SEDAR at www.sedar.com.

These condensed interim consolidated financial statements were approved by the Board of Directors of the Company and authorized for issue by the Board of Directors of the Company on July 30, 2021.

c) Basis of consolidation

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

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

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

d) Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period and certain equity instruments and warrants that are within the scope of IFRS 2 – Share-based payments ("IFRS 2").

2. Basis of presentation (continued)

e) Functional and presentation of foreign currency

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

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

f) Foreign currency translation

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

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

g) Significant Accounting Judgements, Estimates and Assumptions

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

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

Significant judgements, estimates and assumptions within these unaudited condensed interim consolidated financial statements, unless stated herein, remain the same as those applied to the annual consolidated financial statements for the year ended February 28, 2021, with the exception of:

COVID-19 estimation uncertainty

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

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

3. Significant accounting policies

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2021 annual consolidated financial statements and as described in these condensed interim consolidated financial statements. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

Adoption of new accounting pronouncements

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments revise the existing requirements for hedge accounting and are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as Interbank Offered Rate ("IBOR"). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company adopted the Amendments to IFRS 9, IAS 39 and IFRS 7 effective March 1, 2020, with no impact to the Company's condensed interim consolidated financial statements.

New accounting pronouncements

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that the "cost of fulfilling" a contract comprises the "costs that relate directly to the contract". Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

4. Private Placement

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.

(Unaudited – Expressed in Canadian Dollars)

4. Private Placement (continued)

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 at a price of $0.05 per Unit for gross proceeds of approximately $795,802. 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").

As the trading share price on March 15, 2021, and April 15, 2021, were higher than the Unit price of $0.05, the Company assigned all proceeds and finder's fees to share capital. As part of the financing, the Company incurred transaction costs of $21,754 which was recorded as a reduction to equity.

5. Accounts receivable

	May 31, 2021	February 28, 2021
	$	$
Trade receivables	54,222	48,356
GST and HST receivable	11,238	40,867
Other receivable	72,285	5,641
	137,745	**94,864**

6. Biological assets

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

	May 31, 2021	February 28, 2021
	$	$
Beginning Balance	-	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)
Ending Balance	-	-

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

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

As of May 31, 2021, the Company had fully harvested all of its biological assets.

(Unaudited – Expressed in Canadian Dollars)

7. Inventories

The following is a breakdown of inventory as at May 31, 2021:

	May 31, 2021	February 28, 2021
	$	$
Dry cannabis	274,115	458,845
Supplies and consumables	10,531	9,199
	284,646	**468,044**

For the three months ended May 31, 2021, the Company capitalized $20,960 of production costs (May 31, 2020 – $110,830) related to post-harvest activities and held 230,531 grams of dry cannabis (May 31, 2020 – 554,093 grams of dry cannabis and 175,498 grams of trim).

During the three months ended May 31, 2021, the Company recognized cost of goods sold of $195,619 (May 31, 2020 - $63,860) and income related to changes in fair value of inventory sold of $2,137 (May 31, 2020 - $24,471). In addition, the Company recognized an inventory impairment of $29,299 for the three months ended May 31, 2021 (May 31, 2020 - nil) on specific harvests due to net book value exceeding its net realizable value as well as disposal of trim.

8. Property, plant and equipment

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Costs	**$**	**$**	**$**	**$**	**$**	**$**
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
Additions	-	-	1,290	-	5,896	7,186
Balance, May 31, 2021	**1,098,550**	**10,233,485**	**88,713**	**-**	**809,669**	**12,230,417**

	Land	Building & Improvements	Computer Software & Equipment	Furniture & Fixtures	Production & Other Equipment	Total
Accumulated depreciation and impairment	**$**	**$**	**$**	**$**	**$**	**$**
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
Depreciation	-	14,490	72	-	143	14,705
Balance, May 31, 2021	**-**	**8,121,003**	**87,495**	**-**	**803,916**	**9,012,414**
Net Book Value						
February 28, 2021	**1,098,550**	**2,126,972**	**-**	**-**	**-**	**3,225,522**
May 31, 2021	**1,098,550**	**2,112,482**	**1,218**	**-**	**5,753**	**3,218,003**

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 were also capitalized and allocated to building upon completion. Depreciation commenced when construction had been completed and the facility was available for use.

Depreciation related to building and improvements, and production equipment was capitalized as part of production costs within biological assets and dry cannabis inventory. During the three months ended May 31, 2021, $23 (May 31, 2020 – $5,186) of depreciation was capitalized.

During the year ended February 28, 2021, the Company disposed of 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 a result, the Company recognized impairment of $152,361 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.

(Unaudited – Expressed in Canadian Dollars)

9. Intangible assets and goodwill

	ACMR License	Technology License in Process	Goodwill	Total
Costs	**$**	**$**	**$**	**$**
Balance, February 29, 2020	6,631,931	46,012,157	1,322,544	53,966,632
Additions	-	-	-	-
Balance, May 31, 2020	6,631,931	46,012,157	1,322,544	53,966,632
Additions	-	-	-	-
Balance, February 28, 2021	6,631,931	46,012,157	1,322,544	53,966,632
Additions	-	-	-	-
Balance, May 31, 2021	**6,631,931**	**46,012,157**	**1,322,544**	**53,966,632**

	ACMR License	Technology License in Process	Goodwill	Total
Accumulated amortization and impairment	**$**	**$**	**$**	**$**
Balance, February 29, 2020	5,215,275	35,800,503	1,322,544	42,338,322
Amortization	9,199	-	-	9,199
Balance, May 31, 2020	5,224,474	35,800,503	1,322,544	42,347,521
Amortization	27,597	-	-	27,597
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
Amortization	-	-	-	-
Balance, May 31, 2021	**6,631,931**	**46,012,157**	**1,322,544**	**53,966,632**
Net book value, February 28, 2021	**-**	**-**	**-**	**-**
Net book value, May 31, 2021	**-**	**-**	**-**	**-**

During the year ended February 28, 2021, the Company recognized non-cash impairment charges to its single CGU. As a result, the Company recognized impairment of $11,591,514 related to intangible assets.

10. Net investment in the lease

On July 1, 2020, the Company acted as an intermediate lessor and entered in a sublease agreement for one of its facilities. As the intermediate lessor, the Company accounted the head lease and the sublease as two separate contracts. Sproutly Canada has accounted for the sublease as a finance lease in which amounts due are recognized as net investment in the lease on the condensed interim consolidated statement of financial position. Net investment in the lease is the gross investment in the lease discounted using the incremental borrowing rate of 14% used to record the lease liability associated with the head lease (Note 12(c)). The gross investment in the lease is the sum of lease payments receivable by the Company under the finance lease and any unguaranteed residual value accruing to the Company. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return to the Company's net investment outstanding in respect of the sublease. For the three months ended May 31, 2021, the Company recognized finance lease income of 2,798 (May 31, 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	-
Balance, May 31, 2020	-
Addition	90,237
Finance lease income	8,110
Payment received	(18,875)
Balance, February 28, 2021	79,472
Finance lease income	2,798
Payment received	(7,373)
Balance, May 31, 2021	74,897
Balance, May 31, 2021 – Current Portion	24,569
Balance, May 31, 2021 – Non- Current Portion	50,328

(Unaudited – Expressed in Canadian Dollars)

10. Net investment in the lease (continued)

(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 May 31, 2021.

Contractual obligations	Less than one year	One to five years	Total
	$	$	$
Lease payments receivable	30,078	62,080	92,158

11. Leases

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

(a) Right-of-use assets

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

Costs	**$**
Balance, February 29, 2020	102,571
Additions	-
Balance, May 31, 2020	102,571
Disposal	102,571
Balance, February 28, 2021	-
Additions	-
Balance, May 31, 2021	**-**

(a) Right-of-use assets

Accumulated Depreciation	**$**
Balance, February 29, 2020	15,134
Depreciation	5,044
Balance, May 31, 2020	20,178
Depreciation	1,682
Disposal	(21,860)
Balance, February 28, 2021	-
Depreciation	-
Balance, May 31, 2021	**-**
Net Book Value	
February 28, 2021	**-**
May 31, 2021	**-**

(b) Maturity analysis of lease obligations

The following represents a maturity analysis of the Company's undiscounted contractual lease obligations and potential exposures as at May 31, 2021.

Contractual obligations	Less than one year	One to five years	Total
	$	$	$
Lease obligations payments	32,536	64,698	97,234

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

(Unaudited – Expressed in Canadian Dollars)

11. Leases (continued)

(c) Supplemental disclosure

The Company used an incremental borrowing rate of 14% to determine the present value of minimum lease payments. For the three months ended May 31, 2021, the Company recognized $2,866 interest expense (May 31, 2020 – $3,476) on lease obligations and $6,191 (May 31, 2020 – $33,067) of lease payments recognized in the consolidated statements of loss and comprehensive loss. For the three months ended May 31, 2021, the total cash outflow relating to leases amount to $10,106 (May 31, 2020 - $40,281).

12. Accounts payable and accrued liabilities

	May 31, 2021	February 28, 2021
	$	$
Interest payable	499,382	379,573
Trade payables	1,309,504	1,852,350
Other payables	302,808	417,842
	2,110,966	**2,649,765**

13. Loans and borrowings

As at May 31, 2021, the Company held the following loans and borrowings:

		May 31, 2021	February 28, 2021
		$	$
Current			
Borrowings	(a)	-	-
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)	1,724,395	1,634,109
Interest bearing loan with 0982244 B.C. Ltd.	(g)	1,478,757	1,403,759
		3,248,600	**4,062,599**
Non-Current			
Line of credit	(d)	50,019	48,206
		3,298,619	**4,110,805**

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

	(a) $	(b) $	(c) $	(d)	(e) $	(f) $	(g) $	Total $
February 29, 2020	150,000	-	-	-	-	45,448	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
Modification of loan	-	(150,535)	-	-	-	-	-	(150,535)
Accretions	-	29,924	-	1,813	-	-	165,284	197,021
Transfer to convertible loans payable	-	(708,672)	-	-	-	-	-	(708,672)
Repayment	-	-	(150,000)	-	-	-	-	(150,000)
May 31, 2021	**-**	**-**	**-**	**50,019**	**-**	**45,448**	**3,203,152**	**3,298,619**

(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.

13. Loans and borrowings

(a) Borrowings (continued)

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.

For the three months ended May 31, 2021, the Company incurred interest expense of nil (May 31, 2020 - $3,863).

(b) Related party loan

The Company received unsecured, non-interest and on-demand related party loans from Infusion Biosciences Inc., a company partially 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 started accruing on 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 had fully withdrawn $855,000 from the loan.

On April 24, 2021, a second amendment to the secured loan agreement entered between the Company and Infusion Biosciences Inc. in which the maturity date of the loan was extended to April 24, 2022. The change was deemed to be a substantial modification of the financial lability and considered an extinguishment of the original liability. The new liability was measured at fair value using an effective interest rate of 19.5% on April 24, 2021, and a $147,938 gain on extinguishment of loan was recorded. The Company also incurred $2,597 legal fees which was recorded as a reduction to the liability.

On May 5, 2021, the Company entered into a secured convertible debenture loan agreement with Infusion Biosciences Inc. As a result, the financial instrument was reclassed and presented as a convertible loan payable (Note 14(iii)).

Prior to the reclassification, for the three months ended May 31, 2021, the Company recognized a deferred gain of 3,490 (May 31, 2020 – nil), interest expense of $23,906 (May 31, 2020 – nil) and recorded accretion expense of $29,924 (May 31, 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 partially owned by the current Chief Executive Officer for $150,000. The loan is unsecured, bears no interest and is due on demand. The amount was fully repaid on April 1, 2021.

(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.

13. Loans and borrowings (continued)

(d) Line of credit

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 three months ended May 31, 2021, the Company recorded accretion expense of $1,813 (May 31, 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 consists 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.

(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.

For the three months ended May 31, 2021, the Company incurred interest expense of $44,110 (May 31, 2020 - $44,110), and recorded accretion expense of $90,286 (May 31, 2020 - $65,987).

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

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

(Unaudited – Expressed in Canadian Dollars)

13. Loans and borrowings (continued)

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

For the three months ended May 31, 2021, the Company incurred interest expense of $37,808 (May 31, 2020 - $37,397) and recorded accretion expense of $74,998 (May 31, 2020 - $55,193).

14. Convertible loans payable

	(i) $	(ii) $	(ii) $	Total $
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**
Issued	-	-	708,672	708,672
Modification of loan	(352,516)	(157,971)	-	(510,487)
Accretion	87,328	40,091	9,604	137,023
Conversion	(209,481)	-	-	(209,481)
Balance, May 31, 2021	**1,468,763**	**856,643**	**718,276**	**3,043,682**

(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.

On April 22, 2021, the Company and the debenture holders entered into a fourth supplemental indenture and extended the maturity date of the loan 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 19.61% on April 22, 2021, and a $348,693 gain on extinguishment of loan was recorded. The Company also incurred $3,823 legal fees which was recorded as a reduction to the liability.

During the three months ended May 31, 2021, the Company incurred interest expense of $40,722 (May 31, 2020 - $154,656) and accretion expense of $87,328 (May 31, 2020 - $409,848).

14. Convertible loans payable (continued)

During the period ended May 31, 2021, $250,000 of convertible debentures were converted to 4,166,666 common shares at a conversion price of $0.06 with a combined carrying value of $209,479. In addition, $6,717 of convertible debenture reserves were transferred to share capital as part of the conversion. The Company also settled outstanding interest payable of $911 by issuing 15,185 common shares with a settlement price of $0.06 per share. As certain interest settlements occurred when the market share price exceeded $0.06 per share, the Company recognized a loss on extinguishment of interest of $76.

(ii) 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%.

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 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 three months ended May 31, 2021, the Company recognized a loss on convertible bridge loan financing of nil (May 31, 2020 – $189,964).

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.

On April 24, 2021, a third amendment was entered between the Company and Infusion Biosciences Inc. in which the maturity date of the loan was extended 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 17.31% on April 24, 2021, and a $154,933 gain on extinguishment of loan was recorded.

For the three months ended May 31, 2021, the Company incurred interest expense of $44,026 (May 31, 2020 – 25,490) and recorded accretion expense of $40,091 (May 31, 2020 – $56,410).

(iii) On May 5, 2021, the Company entered into a secured convertible debenture to the existing $855,000 related party loan (Note 13(b)). The loan carries an interest of 15% per annum accruing and compounding monthly, payable on April 24, 2022. The loan is evidenced by a secured convertible debenture (the "Convertible Debenture") that provides the lender with the right to convert the principal and interest of the loan into units of the Company (the "Units") at a conversion price of $0.07 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 $0.08 for a period of two years from date of issuance.

(Unaudited – Expressed in Canadian Dollars)

14. Convertible loans payable (continued)

The Company measured the hybrid instrument at $1,370,733, with $708,672 assigned to the liability component and amortized cost using the effective interest rate of 19.52%. The remaining $662,061 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 the Units using the same methodology.

The value of the Warrants was based on the following assumptions:

Share price	$0.06
Exercise price	$0.08
Annualized volatility	105.67%
Risk-free interest rate	0.49%
Dividend yield	0.00%
Expected life	2.97 Years

The value of the Units was based on the following assumptions:

Share price	$0.10
Exercise price	$0.07
Annualized volatility	105.67%
Risk-free interest rate	0.49%
Dividend yield	0.00%
Expected life	0.97 Years

The Company also recognized $662,061 a deferred loss, which shall be recognized over the life of the loan in the consolidated statements of loss and comprehensive loss. During the three months ended May 31, 2021, the Company recognized a loss on convertible related party loan of $44,626 (May 31, 2020 – nil).

During the three months ended May 31, 2021, the Company incurred interest of $10,287 (May 31, 2020 – nil) and recorded accretion expense of $9,604 (May 31, 2020 – nil).

15. Share Capital

(a) Authorized

Unlimited number of common shares without par value

(b) Escrow Shares

Pursuant to an escrow agreement dated July 6, 2018, 36,255,898 common shares of the Company were deposited into escrow with respect to the reverse acquisition. Under the escrow agreement, 10% of the escrowed common shares were released on November 6, 2018, and 15% will be subsequently released every 6 months thereafter over a period of 36 months. As of May 31, 2021, 5,385,885 shares were held in escrow.

(c) Issued and outstanding

Transactions for three months ended May 31, 2021

On March 15, 2021, the Company issued 11,050,000 common shares as part of the first tranche of private placement for proceeds of $552,500. The Company also issued 497,250 common shares as finder's fee (Note 4).

On April 15, 2021, the Company issued 15,916,037 common shares as part of the second and final tranche of private placement for proceeds of $795,802. The Company also issued 450,000 common shares as finder's fee (Note 4).

On May 17, 2021, 50,965 options (May 31, 2020 – nil) were exercised for gross proceeds of $250. Non-cash compensation of $10,297 were reclassified from reserves to share capital on exercise of these options.

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(c) Issued and outstanding (continued)

During the three months ended May 31, 2021, $250,000 of convertible debentures and $911 of interest payables were converted to 4,166,666 and 15,185 common shares of the Company respectively (Note 14(i)).

Transactions for three months ended May 31, 2020

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

As at May 31, 2021, there were 359,056,923 (May 31, 2020 – 256,627,437) 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 28, 2021	1,500,000	$0.08
Issued	27,913,287	$0.07
Balance, May 31, 2021	**29,413,287**	**$0.07**

	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**

The following table summarizes the warrants that remain outstanding as at May 31, 2021:

Exercise Price ($)	**Warrants Outstanding (#)**	**Weighted Average Remaining Contractual Life (years)**	**Expiry Date**
0.08	1,500,000	1.73	August 24, 2022
0.07	11,547,250	1.79	March 15, 2023
0.07	16,366,037	1.88	April 15, 2023
0.07	29,413,287	1.81	

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

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

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(d) Share purchase warrants (continued)

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

	2021	2020
Share price at date of issuance (per share) Volatility Expected life Risk-free rate	Nil – 100% value assigned to common shares as part of private placement (Note 4)	No warrants were issued

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, each Equity Special Warrant Units when exercised entitles the holder of one-half common share purchase warrants with an exercise price of $0.90 per share, expiring on October 24, 2020. The Company has recognized value of nil in warrant reserves related to the share purchase warrants. On December 27, 2018, 15,400,000 of Equity Special Warrant Units were exercised and 7,700,000 of share purchase warrants were issued. During the three months ended May 31, 2021, nil (May 31, 2020 – nil) warrants were exercised. As at October 24, 2020, the remaining 6,303,948 share purchase warrants had 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. For the three months ended May 31, 2021, there were no Broker Equity Units exercised (May 31, 2020 – nil) and the remaining 1,057,753 units expired as at October 24, 2020.

(f) Convertible bridge loan units

As part of the Convertible Bridge Loan Financing (Note 14(ii)), 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 three months ended May 31, 2021, nil Units were exercised (May 31, 2020 – nil).

(g) August 24, 2020 Private Placement

As part of the non-brokered private placement (Note 13(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 three months ended May 31, 2021, nil warrants were exercised (May 31, 2020 – nil).

(Unaudited – Expressed in Canadian Dollars)

15. Share Capital (continued)

(h) March 15, 2021 and April 15, 2021 Private Placement

As part of the private placement on March 15, 2021 and April 15, 2021 (Note 4), the Company issued 11,547,250 and 16,366,037 warrants with an exercise price of $0.07 per share, expiring two years from the date of issuance. The Company recognized value of nil in warrant reserves related to the share purchase warrants. During the three months ended May 31, 2021, nil warrants were exercised (May 31, 2020 – nil).

16. Share-based compensation

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

	Stock Options #	Weighted Average Exercise Price $
Balance, February 28, 2021	17,970,104	$0.19
Granted	2,200,000	$0.06
Exercised	(50,965)	$0.01
Forfeited	(845,000)	$0.23
Balance, May 31, 2021	**19,274,139**	**$0.17**

During the three months ended May 31, 2021, the Company granted 2,200,000 stock options (May 31, 2020 – 5,400,000) with a fair value of $73,886 (May 31, 2020 - $310,752). Of the 2,200,000 stock options granted, 300,000 were granted to a consultant and vested immediately and 1,400,000 were granted to the same consultant with a vesting period of one-seventh every first of the month beginning on June 1, 2021. The remaining 500,000 stock options were granted to an employee with a vesting period of one-sixth every six months. The weighted average exercise price of grants during the period was $0.06.

For the period ended May 31, 2021, 845,000 stock options were forfeited due to termination of an employee (May 31, 2020 – nil).

During the three months ended May 31, 2021, 50,965 stock options (May 31, 2020 – nil) were exercised for proceeds of $250 (May 31, 2020 - nil). The weighted average share price at the dates the options were exercised during the period ended May 31, 2021, was $0.07 per share.

	Stock Options #	Weighted Average Exercise Price $
Balance, February 28, 2020	15,589,807	$0.34
Granted	5,400,000	$0.10
Exercised	(150,000)	$0.10
Balance, May 31, 2020	**20,839,807**	**$0.28**

(Unaudited – Expressed in Canadian Dollars)

16. Share-based compensation (continued)

The following table summarizes the stock options that remain outstanding as at May 31, 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
0.25	3,906,546	March 25, 2027	3,906,546
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	220,832
0.44	200,000	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	2,050,000	March 17, 2025	2,250,000
0.10	2,050,000	March 17, 2025	1,116,666
0.06	900,000	October 26, 2025	900,000
0.06	1,350,000	October 26, 2025	225,000
0.05	600,000	February 4, 2026	-
0.06	1,700,000	May 6, 2026	300,000
0.06	500,000	May 6, 2026	-
	19,274,139		**14,550,806**

For the three months ended May 31, 2021, the Company incurred $28,838 (May 31, 2020 - $16,704) of expenses for options granted and vested to consultants for services.

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

Exercise Price ($)	Options Outstanding (#)	Expiry Date	Options Exercisable (#)
0.01	1,014,687	March 25, 2027	1,014,687
0.01	1,927,906	March 25, 2027	980,864
0.01	50,965	April 18, 2027	17,143
0.25	4,058,749	March 25, 2027	2,705,830
0.25	2,500,000	July 6, 2028	1,250,001
0.60	375,000	July 6, 2028	300,003
0.67	2,800,000	August 1, 2028	1,399,998
0.62	737,500	November 6, 2028	368,745
0.44	1,475,000	December 11, 2023	491,664
0.60	375,000	December 11, 2023	125,000
0.41	30,000	March 6, 2024	30,000
0.80	65,000	April 8, 2024	21,666
0.27	30,000	November 5, 2024	30,000
0.10	2,250,000	March 17, 2025	-
0.10	3,150,000	March 17, 2025	-
	20,839,807		**8,735,601**

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:

	2021	**2020**
Share price at grant date (per share)	$0.06	$0.10
Volatility	100.00%	88.68%
Expected life	3.5 years	2.75 years
Dividend yield	0%	0%
Risk-free rate	0.87%	0.78%

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.

(Unaudited – Expressed in Canadian Dollars)

17. Related party transactions

(a) Compensation of key management personnel

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

The remuneration of key management personnel during the period ended May 31, 2021, are as follows:

	May 31, 2021	May 31, 2020
	$	$
Management compensation(i)(ii)	72,828	84,056
Share-based payments(iii)	(13,410)	154,633
	59,418	**238,689**

(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 May 31, 2021, the Company owed $134,478 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 17). For the three months ended May 31, 2021, a net recovery of $13,410 was recorded due to forfeiture of unvested stock options of a terminated executive officer.

(b) Related party loan

The Company entered into an $855,000 secured loan agreement from Infusion Biosciences Inc., a company partially owned by the current Chief Executive Officer (Note 13(b) and Note 14(iii)).

(c) Convertible bridge loan

On January 28, 2020, the Company secured a private loan with Infusion Biosciences Inc. for $1,000,000 (Note 14(ii)).

(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 partially owned by the current Chief Executive Officer for $150,000. The loan is unsecured, bears no interest and is due on demand (Note 13(c)). The amount was fully repaid on April 1, 2021.

(e) Private placement

As part of the April 15, 2021, second and final tranche of the private placement for gross proceeds of $795,802 (Note 4), Dr. Arup Sen, Chief Executive Officer and Director of the Company, purchased 3,000,000 Units through a company controlled by Dr. Sen.

18. General and administration

	May 31, 2021	May 31, 2020
	$	$
Professional fees	94,675	82,415
Office and administration	152,709	237,049
Wages	214,479	215,198
Investor relations	24,069	19,609
	485,932	**554,271**

(Unaudited – Expressed in Canadian Dollars)

19. Finance and other costs

	May 31, 2021	May 31, 2020
	$	$
Accretion expense	334,046	588,765
Financing fees	47,363	-
Bank charges	971	1,284
Interest expense	200,927	272,740
	583,307	**862,789**

20. Financial instruments and risk management

(a) Fair values of financial instruments

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

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

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

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

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 May 31, 2021, are summarized in the following table:

	Amortized Costs	FVTPL	Total
Financial assets			
Cash	$386,392	-	$386,392
Receivables	137,745	-	137,745
Financial liabilities			
Accounts payable and accrued liabilities	2,110,966	-	2,110,966
Loans and borrowings	3,298,619	-	3,298,619
Convertible loans payable	3,043,682	-	3,043,682

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
Receivables	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

(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 8% GST and HST. The Company has assessed its expected credit loss in accordance to IFRS 9 and management determined ECL to be nominal due to the type of receivables.

(Unaudited – Expressed in Canadian Dollars)

20. Financial instruments and risk management (continued)

(c) Concentration risk

Excluding GST and HST receivables, the Company's accounts receivables are primarily due from six provincial government agencies representing 100% (February 28, 2021 – 100%) of total revenue for the three months ended May 31, 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 May 31, 2021, the Company had current assets of $1,606,608 to settle current liabilities of $8,541,152.

The Company has the following undiscounted loan obligations as at May 31, 2021, which are expected to be payable in the following respective periods:

	$
Less than 1 year	6,900,448
1 to 3 years	120,000
	7,020,448

Subsequent to the three months ended May 31, 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.

21. Capital management

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

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

22. Commitments

On 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 $7,000.

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

23. Subsequent events

On June 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 the unpaid interest ("Interest") of $8,222 from the principal amount of $250,000 (the "Principal") under the Indenture that was converted on May 28, 2021. The Company intended to settle the 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.