



# liberty health sciences

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

**Liberty Health Sciences Inc.**  
**(formerly, SecureCom Mobile Inc.)**

FOR THE PERIOD ENDED FEBRUARY 28, 2018

(in Canadian Dollars)

# **Liberty Health Sciences Inc.** **(formerly, SecureCom Mobile Inc.)**

February 28, 2018

## Table of contents

Consolidated Statements of Financial Position .....	1
Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income .....	2
Consolidated Statements of Changes in Shareholders' Equity.....	3
Consolidated Statements of Cash Flows .....	4
Notes to the Consolidated Financial Statements .....	5-23

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Consolidated Statements of Financial Position (In Canadian dollars)

	Note	February 28, 2018	April 30, 2017
<b>Assets</b>			
Current assets			
Cash and term deposits		\$ 26,145,379	\$ 26,365,123
Deposit in trust	5	-	4,453,160
Inventory	6	2,296,852	-
Biological assets	7	743,896	-
Prepaid expenses and other current assets		622,404	-
Total current assets		29,808,531	30,818,283
Deposits		2,204,819	-
Investment	8	320,225	-
Capital assets	10	25,285,804	-
Intangible assets	9	48,164,672	5,000,000
Total assets		\$ 105,784,051	\$ 35,818,283
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,556,446	\$ 719,324
Due to SecureCom Mobile Inc.	11	-	4,453,160
Finance lease	12	61,540	-
Total current liabilities		3,617,986	5,172,484
Convertible notes payable	13	8,837,835	-
Embedded derivative	13	2,930,932	-
Deferred rent		56,272	-
Deferred tax liability	18	377,831	-
Total liabilities		15,820,856	5,172,484
<b>Shareholders' equity</b>			
Share capital	14	113,321,501	30,167,601
Warrant reserve	15	5,002,063	-
Contributed surplus	16	2,456,669	-
Accumulated other comprehensive loss (Deficit) retained earnings		(2,449,730) (28,367,308)	- 478,198
Total shareholders' equity		89,963,195	30,645,799
Total liabilities and shareholders' equity		\$ 105,784,051	\$ 35,818,283

Nature of operations (Note 1)  
Subsequent events (Note 21)

Approved on behalf of the Board:

"George Scorsis"  
Signed: CEO and Director

"Rene Gulliver"  
Signed: CFO

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income  
(In Canadian dollars)

	Note	For the period from May 1, 2017 to February 28, 2018	For the period from date of incorporation March 20, 2017 to April 30, 2017
<b>Revenue</b>			
Sales		\$ 605,273	\$ -
Total revenue		605,273	-
<b>Cost of sales</b>			
Cost of goods sold	6	707,396	-
Depreciation	9 & 10	226,480	-
Change in fair value of biological assets	7	(1,311,671)	-
Total cost of sales		(377,795)	-
<b>Gross profit</b>		<b>983,068</b>	-
<b>Operating expenses</b>			
Professional fees		1,756,648	204,060
Employee and staff costs	17	1,325,296	-
Office and general		455,609	-
Consulting fees	17	656,803	-
Travel and entertainment		364,773	-
Interest expense		530,863	-
Advertising and marketing		290,555	-
Insurance		339,182	-
Selling costs		230,443	-
Rent		61,158	-
Royalty		18,126	-
Depreciation	9 & 10	1,349,745	-
Share-based compensation	16	2,440,895	-
Total operating expenses		9,820,096	204,060
Net loss before other expenses		(8,837,028)	(204,060)
<b>Non-operating items</b>			
Other income		(82,535)	-
Investor relations and filing fees		846,860	-
Application costs		544,443	-
Transaction costs	4 & 13	20,817,958	-
Legal settlement	14	595,900	-
Interest accretion	13	461,181	-
Change in fair value of embedded derivative	13	(4,013,936)	-
Foreign exchange loss (gain)		460,776	(682,258)
Total other expenses		19,630,647	(682,258)
Net (loss) income before tax		(28,467,675)	478,198
Deferred income tax	18	377,831	-
<b>Net (loss) income</b>		<b>(28,845,506)</b>	478,198
<b>Other comprehensive loss</b>			
Foreign currency translation adjustment		(2,449,730)	-
<b>Net comprehensive (loss) income</b>		<b>\$(31,295,236)</b>	\$ 478,198
Weighted average number of common shares - basic and diluted		267,030,945	56,288,524
Net loss per share - basic and diluted		\$ (0.108)	\$ 0.008

The accompanying notes are an integral part of these consolidated financial statements.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Consolidated Statements of Changes in Shareholders' Equity

(In Canadian dollars)

	Number of common shares	Share capital	Contributed surplus	Warrant reserve	Accumulated other comprehensive loss	(Deficit) retained earnings	Total shareholders' equity
Balance at March 20, 2017 (date of incorporation)	1	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Share issuance - cash, net of issuance costs	121,812,178	25,167,600	-	-	-	-	25,167,600
Share issuance - intangible asset acquisition	64,133,333	5,000,000	-	-	-	-	5,000,000
Net comprehensive income for the period	-	-	-	-	-	478,198	478,198
<b>Balance at April 30, 2017</b>	<b>185,945,512</b>	<b>\$ 30,167,601</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 478,198</b>	<b>\$ 30,645,799</b>

	Number of common shares	Share capital	Contributed Surplus	Warrant Reserve	Accumulated other comprehensive loss	(Deficit) Retained earnings	Total shareholders' equity
Balance at April 30, 2017	185,945,512	\$ 30,167,601	\$ -	\$ -	\$ -	\$ 478,198	\$ 30,645,799
Share issuance - cash, net of issuance costs	54,727,532	31,027,503	-	769,410	-	-	31,796,913
Share issuance - 242 Cannabis acquisition	18,815,322	24,459,919	-	4,232,653	-	-	28,692,572
Share issuance - legal settlement	505,000	595,900	-	-	-	-	595,900
Share issuance - options exercised	16,833	21,334	(1,134)	-	-	-	20,200
Share-based payments	-	-	2,440,895	-	-	-	2,440,895
Shares retained by SecureCom shareholders	43,348,149	27,049,244	-	-	-	-	27,049,244
Options retained by SecureCom shareholders	-	-	16,908	-	-	-	16,908
Net comprehensive loss for the period	-	-	-	-	(2,449,730)	(28,845,506)	(31,295,236)
<b>Balance at February 28, 2018</b>	<b>303,358,348</b>	<b>\$ 113,321,501</b>	<b>\$ 2,456,669</b>	<b>\$ 5,002,063</b>	<b>\$ (2,449,730)</b>	<b>\$ (28,367,308)</b>	<b>\$ 89,963,195</b>

Number of common shares have been retrospectively adjusted to reflect a share consolidation on a three (3) to one (1) basis in connection with the reverse acquisition (note 4).

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Consolidated Statements of Cash Flows

(In Canadian dollars)

	Note	For the period from May 1, 2017 to February 28, 2018	For the period from date of incorporation March 20, 2017 to April 30, 2017
<b>Net inflow (outflow) of cash related to the following activities</b>			
<b>Operating activities</b>			
Net (loss) income		\$(28,845,506)	\$ 478,198
Adjustments to reconcile income for the year to cash flows from operating activities			
Depreciation	9 & 10	1,576,225	-
Change in fair value of biological assets	7	(1,311,671)	-
Share-based compensation	16	2,440,895	-
Non-cash transaction costs	4	20,150,860	-
Non-cash legal settlement	14	595,900	-
Interest accretion	13	461,181	-
Change in fair value of embedded derivative	13	(4,013,936)	-
Deferred income tax	18	377,831	-
Effect of exchange rate changes		(253,743)	-
<b>Changes in non-cash working capital</b>			
Inventory		(876,974)	-
Biological assets		(86,190)	-
Prepaid expenses and other current assets		(614,164)	-
Deposits		(2,204,819)	-
Accounts payable and accrued liabilities		2,541,876	719,324
Finance lease		(65,018)	-
Deferred rent		56,272	-
		<b>(10,070,981)</b>	<b>1,197,522</b>
<b>Investing activities</b>			
Purchase of equipment		(9,758,394)	-
Cash received from acquisitions	4 & 14	18,226,807	-
Purchase of investment		(320,225)	-
Acquisition of Chestnut Hill Tree Farm LLC	5	(45,398,694)	(4,453,160)
		<b>(37,250,506)</b>	<b>(4,453,160)</b>
<b>Financing activities</b>			
Share capital issued for cash, net of issuance costs	14	31,796,913	25,167,601
Cash received from options exercised	16	20,200	-
Net proceeds from convertible debt issuance	13	15,284,630	-
Due to SecureCom Mobile Inc.		-	4,453,160
		<b>47,101,743</b>	<b>29,620,761</b>
Net decrease in cash and term deposits		(219,744)	26,365,123
Cash and term deposits, beginning of period		26,365,123	-
<b>Cash and term deposits, end of period</b>		<b>\$ 26,145,379</b>	<b>\$ 26,365,123</b>
<b>Supplemental information</b>			
Shares issued to acquire intangible assets		\$ -	\$ 5,000,000

The accompanying notes are an integral part of these consolidated financial statements.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

### 1. Nature of operations

Liberty Health Sciences Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on November 9, 2011 as SecureCom Mobile Inc. ("SecureCom"). The head office of the Company is located at 35 McCaul Street, Suite 201, Toronto, Ontario, Canada and its registered office is located at Suite 2300, 550 Burrard Street, Vancouver, British Columbia, Canada.

The Company's principal business activity is the production and distribution of medical cannabis through its wholly-owned subsidiary DFMMJ LLC (d/b/a Liberty Health Sciences Florida Ltd.).

On July 20, 2017, the Company completed a reverse takeover transaction, pursuant to which DFMMJ Investments Ltd. ("DFMMJ") amalgamated with a wholly-owned subsidiary of the Company (Note 4). The Company's common shares resumed trading on the Canadian Securities Exchange under the symbol "LHS" on July 26, 2017.

These consolidated financial statements were approved by the Company's Board of Directors on June 28, 2018.

### 2. Basis of presentation

#### (a) Statement of compliance

The policies applied in these annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and Interpretations of the IFRS Interpretations Committee.

#### (b) Basis of presentation

These consolidated financial statements have been prepared on the going concern basis, under the historical cost basis except for certain financial instruments that are measured at fair value and biological assets that are measured at fair value less costs to sell, as detailed in the Company's accounting policies.

#### (c) Functional and presentation currency and change in functional currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency. Effective May 23, 2017, the functional currency of DFMMJ LLC, a wholly-owned subsidiary, was changed from the Canadian dollar to the United States dollar. The change in functional currency was a result of the increased influence of the United States dollar on the economic environment in which DFMMJ LLC operates due to the Acquisition (note 5). The change in functional currency of the foreign operation has been adjusted prospectively from May 23, 2017.

#### (d) Basis of consolidation

The Company consolidates entities which it controls. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of the wholly owned subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

Entity Name	Jurisdiction of incorporation
Liberty Health Sciences USA Ltd.	British Columbia, Canada
DFMMJ LLC (d/b/a Liberty Health Sciences Florida Ltd.)	Florida, USA
242 Cannabis LLC	Florida, USA
Liberty Health Sciences Ohio LLC II (50.1% interest in Schottstein Aphria II LLC JV)	Ohio, USA
Liberty Health Sciences Ohio LLC III (50.1% interest in Schottstein Aphria III LLC JV)	Ohio, USA

Intragroup balances, and any unrealized gains and losses or income and expenses arising from transactions with controlled entities are eliminated to the extent of the Company's interest in the entity.

### (a) Foreign currency translation

All figures presented in the consolidated financial statements are reflected in Canadian dollars unless otherwise noted.

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 statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable as at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

The assets and liabilities of foreign operations are translated in Canadian dollars at year-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 translating foreign operations are recognised in other comprehensive loss and accumulated in equity.

### (b) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Management has applied significant estimates and assumptions related to the following:

#### Biological assets and Inventory

Management is required to make a number of estimates and assumptions in calculating the fair value less costs to sell and costs to complete, including estimating the stage of growth of the cannabis, harvesting costs, sales price, and expected yields.

#### Estimated useful lives, impairment considerations and amortization of capital and intangible assets

Amortization of capital and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Indefinite life intangible asset impairment testing requires management to make critical estimates in the impairment testing model. On an annual basis, the Company tests whether indefinite life intangible assets are impaired. Estimation is required with respect to determining the recoverable amount of indefinite life intangibles.

Impairment of definite long-lived assets is influenced by judgment in defining a cash generating unit and determining the indicators of impairment, and estimates used to measure impairment losses.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

#### Share-based compensation and warrants

The fair value of share-based compensation and warrants are estimated using the Black-Scholes option pricing model and rely on a number of estimates, such as the expected life of the option or warrant, the volatility of the underlying share price, the risk free rate of return, and the estimated rate of forfeiture options granted.

#### Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

### **3. Significant accounting policies**

The significant accounting policies used by the Company are as follows:

#### (a) Revenue

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is recognized when all the following conditions have been satisfied, which are generally met once the products are received by customers.

- The Company has transferred the significant risks and rewards of ownership of the goods to the purchaser;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### (b) Cash and term deposits

Cash and term deposits are comprised of cash and highly liquid investments that are readily convertible into known amounts of cash with original maturities of three months or less.

#### (c) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Packaging and supplies are initially valued at cost.

#### (d) Biological assets

The Company's biological assets consist of medical cannabis plants which are not yet harvested. These biological assets are measured at fair value less costs to sell and costs to complete. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell and costs to complete.

Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

Costs related to production are capitalized as part of the biological asset value.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

(e) Capital assets

Capital assets are stated at cost, net of accumulated amortization and accumulated impairment losses, if any.

Amortization is calculated using the following terms and methods:

Asset type	Amortization method	Amortization term
Land	Not amortized	No term
Greenhouse infrastructure	Straight-line	15 years
Vehicles	Straight-line	5 years
Furniture & equipment	Straight-line	5 years
Leasehold improvements	Straight-line	Over lease term
Construction in progress	Not amortized	No term

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statements of income (loss) and comprehensive income (loss) in the year the asset is derecognized.

The assets' residual values, useful lives and methods of amortization are reviewed at each financial year-end and adjusted prospectively if appropriate.

(f) Intangible assets

Intangible assets are comprised of an e-commerce platform, purchased intellectual property, and purchased licenses and permits. All are recorded at cost less accumulated amortization. Amortization of the e-commerce platform is recorded on a straight-line basis over the estimated useful life of 1 year. Amortization of the intellectual property is recorded on a straight-line basis over the remaining useful life of 3 years. There is no amortization of the licenses and permits which have an indefinite life.

(g) Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit, or "CGU"). An impairment loss is recognized for the amount, if any, by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and the value-in-use (being the present value of expected future cash flows of the asset or CGU). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been previously recognized.

(h) Income taxes

Income tax expense consisting of current and deferred tax expense is recognized in the consolidated statements of income (loss) and comprehensive income (loss). Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized.

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

(i) Earnings (loss) per share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the year. The dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted earnings (loss) per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Share-based compensation

The Company has a stock option plan in place. 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. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of income (loss) and comprehensive income (loss) such that the cumulative expense reflects the revised estimate.

(k) Financial instruments

Financial assets and other financial liabilities are classified into one of four categories:

- FVTPL;
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in the consolidated statements of income (loss) and comprehensive income (loss). Transaction costs are expensed as incurred.

(ii) HTM investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs and subsequently at amortized cost.

(iii) AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories. Gains and losses arising from changes in fair value are recognized in other comprehensive loss.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

(iv) Loans and receivables

Loans and receivables are financial assets having fixed or determinable payments that are not quoted in an active market. They are initially recognized at the transaction value and subsequently carried at amortized cost less, when material, a discount to reduce the loans and receivables to fair value.

(v) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been impacted.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statements of income (loss) and comprehensive income (loss). With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through the consolidated statements of income and comprehensive income.

(vi) Financial liabilities and other financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with changes being recognized through the consolidated statements of income (loss) and comprehensive income (loss). Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

(vii) Embedded derivatives

The Company has convertible note payables whereby balances can be converted into equity. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Derivatives are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are recognised in profit or loss.

(viii) Classification of financial instruments

Balance Sheet Classification	Financial Instrument Classification
Cash and term deposits	FVTPL
Deposit in trust	FVTPL
Investment	FVTPL
Accounts payable and accrued liabilities	Other financial liabilities
Finance lease	Other financial liabilities
Convertible notes payable	Other financial liabilities
Embedded derivative	FVTPL

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

(l) New standards and interpretations adopted in the current period

The Company implemented the following amendments for the period beginning on May 1, 2017.

Amendments to IAS 16 - Property Plant and Equipment and IAS 41 - Agriculture - The amendments bring bearer plants, which are used solely to grow produce, into the scope of IAS 16 so that they are accounted for in the same way as property, plant and equipment. This amendment did not require any significant change to the Company's accounting policy.

(m) New standards and interpretations issued but not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the period ended February 28, 2018 and have not been applied in preparing these consolidated financial statements.

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers.

The Company intends to adopt these new rules retrospectively from March 1, 2018 with the practical expedients permitted under the standards. Comparatives will not be restated. The Company does not expect the adoption of the above IFRS to have a significant impact on the Company's financial statements.

#### 4. Reverse acquisition

In July 2017, the Company completed its proposed transaction between SecureCom and DFMMJ Investments Ltd. ("DFMMJ") as previously disclosed in June 2017. DFMMJ amalgamated with a new and direct wholly-owned subsidiary of SecureCom to become a direct, wholly-owned subsidiary of SecureCom. SecureCom changed its name to Liberty Health Sciences Inc. and remains as the resulting issuer.

By way of a three-cornered amalgamation, SecureCom acquired all of the issued and outstanding shares of DFMMJ by issuing one common share for each DFMMJ common share held. Each of the stock options and warrants to purchase common shares of DFMMJ thereafter is exercisable for one common share of Liberty Health Sciences Inc. As part of this transaction, the Company consolidated its issued and outstanding common shares on a three-to-one basis. Refer to note 14, Share Capital, for further details.

This transaction has been accounted for as a reverse acquisition that does not constitute a business combination. For accounting purposes, the legal subsidiary, DFMMJ, has been treated as the acquirer and SecureCom, the legal parent has been treated as the acquiree.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

<b>Consideration transferred</b>	
43,348,149 shares at a price of \$0.624 per share	\$ 27,049,244
256,665 stock options	16,908
	<b>\$ 27,066,152</b>
<b>Net assets acquired</b>	
Cash and term deposits	\$ 3,026,807
Prepaid expenses and other current assets	6,014
Loan receivable	4,102,710
Accounts payable and accrued liabilities	(220,239)
	<b>\$ 6,915,292</b>
<b>Transaction costs</b>	
Excess attributed to transaction costs	\$ 20,150,860
Legal fees	427,681
Other	15,044
	<b>\$ 20,593,585</b>

### 5. Acquisition of Chestnut Hill Tree Farm LLC Assets

The Company, through the wholly-owned subsidiary DFMMJ LLC, acquired all or substantially all the assets of Chestnut Hill Tree Farm LLC ("Chestnut"), a limited liability company existing under the laws of the State of Florida for a purchase price of US\$40,000,000 (\$53,960,000) (the "Acquisition"). The Acquisition was subject to the terms of a definitive asset purchase agreement dated March 30, 2017, which included customary closing conditions as well as the completion of due diligence investigations to the satisfaction of the Company. A cash deposit of US\$3,260,000 (\$4,453,160) was made as a down payment on the Acquisition and was held in trust as at April 30, 2017. The deposit was applied to the purchase price upon closing of the Acquisition on May 23, 2017. The Company summarized the assets acquired below:

<b>Consideration transferred</b>	
Cash (US\$40,000,000)	<b>\$ 53,960,000</b>
<b>Net assets acquired</b>	
Cash	\$ 4,108,146
Capital assets	2,388,990
Intangible assets	46,809,983
Inventory	615,225
Biological assets	167,796
Other assets	2,330
Finance lease	(132,470)
	<b>\$ 53,960,000</b>

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

### 6. Inventory

Inventory is comprised of:

	February 28, 2018	April 30, 2017
Harvested cannabis	\$ 104,413	\$ -
Extracted cannabis oil	1,859,828	-
Packaged cannabis oil	332,611	-
	<b>\$ 2,296,852</b>	<b>\$ -</b>

During the period, the Company acquired US\$456,060 (\$615,225) of inventory as part of the Acquisition (note 5). Inventory recognized as an expense in cost of sales for the period from May 1, 2017 to February 28, 2018 was US\$561,615 (\$707,396). During the period, the Company recognized US\$15,885 (\$19,914) as an expense for the disposal of inventory in office and general on the statement of income (loss) and comprehensive income (loss).

### 7. Biological assets

Biological assets are comprised of:

	Amount
Balance as at April 30, 2017	\$ -
Cost incurred until harvest	544,844
Effect of changes in fair value of biological assets	1,311,671
Purchased biological assets	167,796
Transferred to inventory upon harvest	(1,290,762)
Effect of foreign exchange	10,347
<b>Balance as at February 28, 2018</b>	<b>\$ 743,896</b>

During the period, the Company acquired US\$124,386 (\$167,796) of biological assets as part of the Acquisition (note 5). The Company values medical cannabis plants at cost from the date of initial clipping from mother plants until the plant enters the flowering stage, which is usually at the end of the eighth week of its growing cycle. Measurement of the biological asset at fair value less costs to sell and costs to complete begins once the plant enters the vegetative and flowering stages.

In determining the fair value of biological assets, management is required to make several estimates, including: the expected cost required to grow the cannabis up to the point of harvest; harvesting costs; processing costs, selling costs; sales price; and, expected yields for the cannabis plant. Increases in costs required to grow up to the point of harvest, harvesting costs, processing costs and selling costs will decrease the fair value of biological assets, while increases in the sales price and expected yield for the cannabis plant will increase the fair value of biological assets. All of these significant estimates are categorized as Level 3 of the fair value hierarchy. These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The sales price used in the valuation of biological assets is based on the average selling price of all cannabis products, and can vary based on different strains being grown as well as proportion of sales derived from various products sold. Selling costs vary depending on methods of selling, and are considered based on the expected methods of selling and the determined additional costs which would be incurred. Expected yields for the cannabis plant is also subject to variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Management reviews all significant inputs based on historical information obtained as well as based on planned production schedules. Only when there is a material change from the existing expected fair value used for cannabis does the Company make any adjustments to the fair value used. During the period, there was no

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

material change to these inputs and therefore there has been no change in the determined fair value per plant.

#### 8. Investment

In November 2017, the Company entered into a subscription agreement with Green Tank Holdings Corp. for the purchase of 49,213 preferred shares, for a total cost of US\$250,000 (\$325,003). The Company determined the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value US\$250,000 USD (\$320,225). The Company recognized a loss from the change in fair value of \$4,778 during the period, resulting from changes in foreign exchange.

#### 9. Intangible assets

	Licenses	Software	Intellectual property	Total intangible assets
<b>Cost</b>				
At March 20, 2017 (date of incorporation)	\$ -	\$ -	\$ -	\$ -
Additions	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000
At April 30, 2017	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000
Additions	\$ 46,801,641	\$ 21,376	\$ -	\$ 46,823,017
Effect of foreign exchange	\$ (2,362,632)	\$ (421)	\$ -	\$ (2,363,053)
<b>At February 28, 2018</b>	<b>\$ 44,439,009</b>	<b>\$ 20,955</b>	<b>\$ 5,000,000</b>	<b>\$ 49,459,964</b>

	Licenses	Software	Intellectual property	Total intangible assets
<b>Accumulated depreciation</b>				
At March 20, 2017 (date of incorporation) and April 30, 2017	\$ -	\$ -	\$ -	\$ -
Additions	\$ -	\$ 8,657	\$ 1,286,531	\$ 1,295,188
Effect of foreign exchange	\$ -	\$ 104	\$ -	\$ 104
<b>At February 28, 2018</b>	<b>\$ -</b>	<b>\$ 8,761</b>	<b>\$ 1,286,531</b>	<b>\$ 1,295,292</b>

#### Net book value

At March 20, 2017 (date of incorporation)	\$ -	\$ -	\$ -	\$ -
At April 30, 2017	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000
<b>At February 28, 2018</b>	<b>\$ 44,439,009</b>	<b>\$ 12,194</b>	<b>\$ 3,713,469</b>	<b>\$ 48,164,672</b>

During the reporting period, the Company acquired US\$6,183 (\$8,341) of software and US\$34,693,581 (\$46,801,641) of licenses as part of the Acquisition (note 5).

In April 2017, a related party licensed intellectual property to the Company in exchange for common shares (note 14). The intellectual property relates to its expertise in growing, harvesting and producing marijuana as well as processing automation and other operational improvements. The Company valued the purchase price for intellectual property at \$5,000,000, which the Company estimates to be its fair value.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

### 10. Capital assets

	Land	Greenhouse infrastructure	Vehicles	Furniture & equipment	Leasehold improvements	Construction in progress	Total capital assets
<b>Cost</b>							
incorporation)							
and April 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	2,376,291	19,539,159	198,247	1,864,585	431,679	1,289,963	25,699,924
Effect of foreign exchange	(6,849)	(88,986)	(848)	(32,543)	(930)	(3,929)	(134,085)
<b>At February 28, 2018</b>	<b>\$ 2,369,442</b>	<b>\$ 19,450,173</b>	<b>\$ 197,399</b>	<b>\$ 1,832,042</b>	<b>\$ 430,749</b>	<b>\$ 1,286,034</b>	<b>\$ 25,565,839</b>
<b>Accumulated depreciation</b>							
incorporation)							
and April 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	85,205	12,919	181,599	1,314	-	281,037
Effect of foreign exchange	-	(242)	(52)	(708)	-	-	(1,002)
<b>At February 28, 2018</b>	<b>\$ -</b>	<b>\$ 84,963</b>	<b>\$ 12,867</b>	<b>\$ 180,891</b>	<b>\$ 1,314</b>	<b>\$ -</b>	<b>\$ 280,035</b>
<b>Net book value</b>							
incorporation)							
and April 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>At February 28, 2018</b>	<b>\$ 2,369,442</b>	<b>\$ 19,365,210</b>	<b>\$ 184,532</b>	<b>\$ 1,651,151</b>	<b>\$ 429,435</b>	<b>\$ 1,286,034</b>	<b>\$ 25,285,804</b>

During the reporting period, the Company acquired US\$1,770,934 (\$2,388,990) of capital assets as part of the Acquisition (note 5). Included in the acquired assets were leased assets of US\$157,686 (\$212,718). The Company leases certain furniture & equipment under a finance lease agreement, where the lease provides the Company the option to purchase the equipment at a price below its fair value at the end of the contract.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

#### 11. Due to SecureCom Mobile Inc.

The Company borrowed US\$3,260,000 (\$4,453,160) from SecureCom Mobile Inc. which was used to fund the deposit for the Acquisition (note 5). The loan has been repaid upon the closing of the reverse acquisition (note 4). The liability was non-interest bearing and unsecured.

#### 12. Finance lease

During the reporting period, the Company acquired a finance lease obligation of US\$98,198 (\$132,470) related to production equipment acquired as part of the Acquisition (note 5). The finance lease is repayable over a one-year period expiring October 2018.

#### 13. Convertible notes payable

In November 2017, the Company issued convertible secured debentures of US\$12,000,000 (\$15,465,600) (the "Notes"). The Notes bear interest of 12% per annum, payable semi-annually, and mature in November 2020. The notes are convertible into common shares of the Company at \$2.00 per share. The Company has the right to convert the Notes into common shares if the Company's shares are listed at a minimum of \$3.00 per share for ten consecutive trading days, on a volume weighted average basis.

The Notes are secured by a perfected first priority lien in all existing and future tangible and intangible assets of the Company, including accounts receivable, inventory, equipment, permits, subject only to customary permitted liens and provided that no security interest shall attach to any property or asset (tangible and intangible) which violates or creates a default under any contract to which the Company or any subsidiary is a party. The first priority security interest includes a general security agreement covering all present and future assets of the Company and a mortgage over all material owned property of the Company.

The Notes are denominated in United States dollars, while convertible in Canadian dollars. The conversion feature in a different currency requires a variable number of shares to settle the Notes, and is accounted for as an embedded derivative under IFRS. The fair value of the embedded derivative was \$6,944,868 on the date of issuance and \$2,930,932 as at February 28, 2018. The Company recognized \$140,418 in transaction costs relating to the issuance of the Notes. The costs were allocated in a pro-rata manner to the derivative component and the Notes, with the amount of \$81,266 for the derivative component being included as part of the transaction costs in the statement of (loss) income. The value of the convertible notes payable was \$8,421,027 on the date of issuance and \$8,837,835 as at February 28, 2018.

During the period from May 1, 2017 to February 28, 2018, the notes payable increased by \$416,808 representing accretion interest of \$461,181 offset by foreign exchange gain of \$44,373 and the embedded derivative decreased by \$4,013,936, representing the change in fair value on the embedded derivative. The Company recorded interest expense of US\$412,541 (\$520,823) which is included in accounts payable as at February 28, 2018.

The fair value of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions: stock price of \$1.95 – \$1.22; expected life of 2.73 – 3 years; \$nil dividends; 70% volatility; risk-free interest rate of 1.43%; foreign exchange rate of 0.7759 – 0.7856; and the exercise price of \$2.00.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

#### 14. Share capital

The Company is authorized to issue an unlimited number of common shares. As at February 28, 2018 the Company issued 303,358,348 shares, of which 85,648,075 were held in escrow.

Common Shares	Number of Shares	Amount
Balance at March 20, 2017 (date of incorporation)	1	\$ 1
Share issuance - cash net of issuance costs	121,812,178	25,167,600
Share issuance - in exchange for intangible asset	64,133,333	5,000,000
Balance at April 30, 2017	185,945,512	\$ 30,167,601
Share issuance - cash, net of issuance costs	54,727,532	31,027,503
Share issuance - 242 Cannabis acquisition	18,815,322	24,459,919
Share issuance - legal settlement	505,000	595,900
Share issuance - options exercised	16,833	21,334
Shares retained by SecureCom shareholders	43,348,149	27,049,244
<b>Balance at February 28, 2018</b>	<b>303,358,348</b>	<b>\$ 113,321,501</b>

Number of shares have been retrospectively adjusted to reflect a share consolidation on a three (3) to one (1) basis in connection with the reverse acquisition (note 4).

- In April 2017, the Company issued 121,812,178 (365,436,538 pre-consolidation) shares for total gross cash proceeds of \$25,792,600. Cash commission of \$625,000 was paid.
- In April 2017, the Company issued 64,133,333 (192,400,000 pre-consolidation) shares to purchase intellectual property valued at \$5,000,000 (note 9).
- The Company completed an offering in April 2017 issuing 54,727,532 (164,182,679 pre-consolidation) subscription receipts at \$0.624 (\$0.208 pre-consolidation) per subscription receipt raising gross proceeds of approximately \$34,150,000. Upon completion of the business combination with SecureCom (note 4) on July 20, 2017, the subscription receipts were automatically exchanged into common shares of the Company. 2,995,192 (8,985,577 pre-consolidation) broker warrants were issued with an exercise price of \$0.624 (\$0.208 pre-consolidation) and expire 2 years from issuance, and cash issuance costs of \$2,353,087 have been paid.
- Upon the execution of the definitive asset purchase agreement (note 5), certain convertible debt holders of Chestnut (the "Defendants") took actions intended to interfere with or prevent the consummation of the Acquisition. In response to such actions, Chestnut elected to file suit against the Defendants in Okalsooa County Circuit Court seeking declaratory and injunctive relief preventing the Defendants from taking further actions that would impede or disrupt the Acquisition or harm Chestnut's license or interests. In October 2017, the parties reached an out of court settlement, which included a release of any further claim by the Defendants and required the Company to issue 505,000 shares of the Company to the Defendants. These shares have been valued at \$595,900.
- During the period 16,833 shares were issued from the exercise of stock options with exercise price of \$1.20 for cash proceeds of \$20,200.
- During the period 18,815,322 units were issued to acquire all of the issued and outstanding shares of 242 Cannabis, LLC. ("242 Cannabis") which owned a 387-acre parcel of land in Gainesville, Florida (the "Property"). The Property includes over 200,000 square feet of state-of-the-art greenhouses, head houses, tissue culture lab and processing facilities. Each unit contains one common share and one-half common share purchase warrant with an exercise price of \$2.07 for a period of 3 years from closing. As 242 Cannabis did not have any operations, this acquisition was accounted for as an asset acquisition, with \$13,492,572 allocated to land and greenhouse infrastructure (note 10), and the remaining \$15,200,000 in the form of cash.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

#### 15. Warrant reserve

	Number of warrants	Weighted average exercise price
Outstanding, beginning of the period	-	\$ -
Issued during the period	12,402,853	1.72
<b>Outstanding, end of the period</b>	<b>12,402,853</b>	<b>\$ 1.72</b>

On July 20, 2017, the Company issued 2,995,192 (8,985,577 pre-consolidation) broker warrants as part of the Offering (note 14). Each warrant is exercisable at \$0.624 (\$0.208 pre-consolidation) per share and expire in 2 years, the fair value of these warrants on the grant date was \$769,410.

On February 15, 2018, the Company closed the acquisition of 242 Cannabis as part of this acquisition the company issued 9,407,661 warrants (note 14). Each warrant is exercisable at \$2.07 per share and expire in 3 years, the fair value of these warrants on the grant date was \$4,232,653.

The warrant details of the Company are as follows:

Expiry date	Exercise price	Number of warrants	Vested and exercisable
July 2019	\$ 0.62	2,995,192	2,995,192
February 2021	\$ 2.07	9,407,661	9,407,661
<b>Balance at February 28, 2018</b>		<b>12,402,853</b>	<b>12,402,853</b>

The Company used the Black-Scholes valuation model using the following assumptions: risk-free rate of 1.27-1.89% expected life of 2-3 years; \$nil dividends; and 70-75% volatility based on comparable companies.

#### 16. Contributed surplus

The Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees and consultants enabling them to acquire common shares of the Company. The maximum number of common shares reserved for issuance of stock options that may be granted under the plan is 10% of the issued and outstanding common shares of the Company from time to time. The options granted have a maximum term of five years and vest as determined by the Board of Directors.

The Company recognized a share-based compensation expense of \$2,440,895 during the period from May 1, 2017 to February 28, 2018. The total fair value of options granted during the period was \$8,135,263.

	Number of options	Weighted average exercise price
Outstanding, beginning of the period	-	\$ -
Issued during the period	10,016,665	1.43
Exercised during the period	(16,833)	1.20
<b>Outstanding, end of the period</b>	<b>9,999,832</b>	<b>\$ 1.43</b>

In July 2017, the Company issued 256,665 (770,000 pre-consolidation) stock options pursuant to the reverse acquisition (note 4). Of the options issued, 6,666 (20,000 pre-consolidation) at an exercise price of \$2.85 (\$0.95 pre-consolidation) expire in July 2018, 249,999 (750,000 pre-consolidation) at an exercise price of \$1.20 (\$0.40 pre-consolidation) expire in July 2018. All options vest immediately. During the period 16,833 options were exercised with an exercise price of \$1.20.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

In July 2017, the Company issued 600,000 compensation options; 200,000 options at an exercise price of \$1.00, 200,000 options at an exercise price of \$1.50 and 200,000 options at an exercise price of \$2.00 to a consultant of the Company. All options expire in July 2019 and vest immediately.

In July 2017, the Company issued 1,500,000 stock options at an exercise price of \$0.624 to employees and officers of the Company. All options expire in July 2022 and vest over 2 years.

In October 2017, the Company issued 410,000 stock options at an exercise price of \$1.07 to employees and officers of the Company. All options expire in October 2022 and vest over 2 years.

In December 2017, the Company issued 7,250,000 stock options at an exercise price of \$1.62 to employees and officers of the Company. All options expire in December 2022 and vest over 2 to 3 years.

The option details of the Company are as follows:

Expiry date	Exercise price	Number of options	Vested and exercisable
July 2018	\$ 2.85	6,666	6,666
July 2018	\$ 1.20	233,166	233,166
July 2019	\$ 1.00	200,000	200,000
July 2019	\$ 1.50	200,000	200,000
July 2019	\$ 2.00	200,000	200,000
July 2022	\$ 0.62	1,500,000	500,000
October 2022	\$ 1.07	410,000	136,661
October 2022	\$ 1.62	7,250,000	908,332
<b>Balance at February 28, 2018</b>		<b>9,999,832</b>	<b>2,384,825</b>

The Company used the Black-Scholes valuation model to determine the fair value of options granted using the following assumptions: stock price of \$0.624 - \$1.62; expected life of 0.36 - 5 years; \$nil dividends; 75% volatility; risk free interest rate of 1.27% - 1.70%; and the exercise price of the respective options.

#### 17. Related parties

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. Key management personnel include the Company's directors and members of the senior management group. Included in employee and staff costs, consulting fees and share-based compensation are \$469,499, \$71,317 and \$2,227,914 respectively, for the period from May 1, 2017 to February 28, 2018 paid to key management personnel.

Officers, directors and directors of a related company participated in the convertible debt financing (Note 13) for a combined principal of US\$3,550,000 (\$4,533,700). The Company recognized accretion interest of \$136,433, foreign exchange gain of \$13,127, gain on change in fair value on the embedded derivative of \$1,187,456, and interest expense of US\$115,967 (\$156,448) on these related party Notes.

Under a trademark license agreement, Liberty accrued \$18,126 of royalty expenses payable to a related company as at February 28, 2018 in respect of sales of products licensed by the same related company.

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

### 18. Income taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2017 – 26%) to the effective tax rate is as follows:

	From May 1, 2017 to February 28, 2018	For the period from date of incorporation March 20, 2017 to April 30, 2017
Net (loss) income before income taxes	\$ (28,467,675)	\$ 478,198
Expected income tax expense	(7,543,934)	124,331
Tax rate changes and other adjustments	797	-
Non-deductible expenses	397,476	(177,387)
280(e) impact on non-COGS depreciation	116,879	-
Share issuance cost booked directly to equity	(789,193)	-
Change in fair value of derivative liability	(1,063,693)	-
Transaction costs - non-deductible	5,379,773	-
IRC 280(e) deductions	554,626	-
Change in tax benefits not recognized	3,325,100	53,056
Income tax expense	\$ 377,831	\$ -

The Company's income tax is allocated as follows:

	From May 1, 2017 to February 28, 2018	For the period from date of incorporation March 20, 2017 to April 30, 2017
Current income tax	\$ -	\$ -
Deferred income tax	377,831	-
Income tax expense	\$ 377,831	\$ -

The following table summarizes the components of deferred tax:

	February 28, 2018	April 30, 2017
<b>Deferred tax assets</b>		
Loan receivable	\$ 341,414	\$ -
Non-capital losses carried forward - United States	680,089	-
Non-capital losses carried forward - Canada	222	-
<b>Deferred tax liabilities</b>		
Capital assets - United States	(505,396)	-
Capital assets - Canada	(222)	-
Intangible assets - United States	(561,198)	-
Biological assets - United States	(332,740)	-
Deferred tax liability, net	\$ (377,831)	\$ -

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

### Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	February 28, 2018	April 30, 2017
Intangible assets	\$ 517,221	
Share issuance costs - 201(1)(e)	2,382,470	\$ -
Non-capital losses carried forward - Canada	9,502,410	204,000
<b>Total</b>	<b>\$ 12,402,101</b>	<b>204,000</b>

## 19. Financial risk management and financial instruments

### Financial instruments

The Company's financial instruments consist of cash and term deposits, deposit in trust, investment, accounts payable and accrued liabilities, due to SecureCom Mobile Inc., finance lease, convertible notes payable and embedded derivative.

The carrying values of accounts payable and accrued liabilities, and due to SecureCom Mobile Inc. approximate their fair values due to their short periods of maturity.

### Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash and term deposits, and deposit in trust are Level 1. The hierarchy is summarized as follows:

Level 1	quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2	inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3	inputs for assets and liabilities not based upon observable market data

	Level 1	Level 2	Level 3	February 28, 2018
<b>Financial assets</b>				
Cash and term deposits	\$ 26,145,379	\$ -	\$ -	\$ 26,145,379
Investment	-	-	320,225	320,225
	<b>\$ 26,145,379</b>	<b>\$ -</b>	<b>\$ 320,225</b>	<b>\$ 26,465,604</b>
<b>Financial liabilities</b>				
Embedded derivative	-	2,930,932	-	2,930,932
	<b>\$ 3,231,201</b>	<b>\$ 2,930,932</b>	<b>\$ -</b>	<b>\$ 6,162,133</b>

	Level 1	Level 2	Level 3	April 30, 2017
<b>Financial assets</b>				
Cash	\$ 26,365,123	\$ -	\$ -	\$ 26,365,123
Deposit in trust	4,453,160	-	-	4,453,160
	<b>\$ 30,818,283</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,818,283</b>

# Liberty Health Sciences Inc. (formerly, SecureCom Mobile Inc.)

## Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

---

### Financial risk management

The Company has exposure to the following risks:

(a) Business risk

The Company operates in the medical cannabis industry in the United States, which is largely regulated at the state level. Cannabis is categorized under the US federal Controlled Substances Act as a controlled substance and as such, violates federal law in the United States. At this time, the Company believes and has obtained legal advice that proceedings regarding cannabis violations are remote.

(b) Foreign exchange risk

The Company maintains cash and term deposits, its investment, and convertible notes payable in United States dollars, which totaled US\$14,361,680, US\$250,000, and US\$12,000,000 as of February 28, 2018 (April 30, 2017 - US\$18,340,842, \$nil, and \$nil) respectively. As a result, the Company's operations are subject to variations from fluctuation in the foreign exchange rate. A 1% change in the foreign exchange rate may result in a gain/loss of approximately \$30,000. The Company does not maintain any contract to hedge against any fluctuation on foreign exchange rate.

(c) Credit risk

The maximum credit exposure at February 28, 2018 is the carrying amount of cash and term deposits. The Company does not have significant credit risk with respect to customers. All cash is placed with locally established financial institutions.

(d) Liquidity risk

As at February 28, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities, a finance lease, and its convertible notes payable. The Company's finance leases have contractual maturity dates within two years. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at February 28, 2018, management regards liquidity risk to be low.

(e) Capital management

The Company's objective when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company will manage its capital structure and adjust it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. The Company is not subject to externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis.

# Liberty Health Sciences Inc.

## (formerly, SecureCom Mobile Inc.)

### Notes to the Consolidated Financial Statements

February 28, 2018

(In Canadian dollars unless otherwise noted)

#### 20. Commitments

During the period, the Company entered into a lease for office space until October 31, 2023, the minimum payments are as follows:

Years ending February 28,	
2019	\$ 137,017
2020	183,985
2021	186,576
2022	187,872
Thereafter	317,438
	<hr/>
	\$ 1,012,887

#### 21. Subsequent events

On March 27, 2018, the Company announced the acquisition of a 75% ownership interest in Massachusetts-based William Noyes Webster Foundation Inc. ("WNWF") for US\$16 million. WNWF owns an integrated medical cannabis license in the Commonwealth of Massachusetts and has a cultivation facility and a dispensary location both of which are partially completed, as well as lease options and local governmental approvals in place for two additional dispensary locations. The purchase of WNWF is subject to the receipt of all required governmental approvals from the Commonwealth of Massachusetts, Medical Use of Marijuana Program or the Massachusetts Cannabis Control Commission. The acquisition is expected to close in Summer 2018.

On May 10, 2018, the Company closed a bought deal and issued 25,555,875 units for gross proceeds of \$23,000,288. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will entitle the holder thereof to acquire, subject to adjustment in certain circumstances, one common share in the capital of the Company at an exercise price of \$1.10 for a period of 24 months.