



liberty health sciences

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2018

(in Canadian Dollars)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying 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 condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

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

November 30, 2018

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

Condensed Interim Consolidated Statements of Financial Position
(In Canadian dollars)

	Note	As at November 30, 2018	As at February 28, 2018
Assets			
Current assets			
Cash and term deposits		\$ 19,162,529	\$ 26,145,379
Inventory	4	6,247,423	2,296,852
Biological assets	5	1,028,033	743,896
Promissory note	6	2,979,412	-
Prepaid assets and other current assets		2,130,851	622,404
Total current assets		\$ 31,548,248	\$ 29,808,531
Deposits		392,384	2,204,819
Investments	7	1,161,263	320,225
Capital assets	8	54,864,385	25,285,804
Intangible assets	9	46,445,926	48,164,672
Total assets		\$ 134,412,206	\$ 105,784,051
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 7,199,271	\$ 3,556,446
Finance lease		-	61,540
Total current liabilities		7,199,271	3,617,986
Convertible notes payable	10	10,688,779	8,837,835
Embedded derivative	10	3,060,816	2,930,932
Deferred rent		-	56,272
Deferred tax liability		377,831	377,831
Total liabilities		21,326,697	15,820,856
Shareholders' equity			
Share capital	11	141,477,194	113,321,501
Warrant reserve	12	9,877,637	5,002,063
Contributed surplus	13	5,939,558	2,456,669
Accumulated other comprehensive gain (loss)		2,637,044	(2,449,730)
Deficit		(46,845,924)	(28,367,308)
Total shareholders' equity		113,085,509	89,963,195
Total liabilities and shareholders' equity		\$ 134,412,206	\$ 105,784,051

Nature of operations (Note 1)

Approved on behalf of the Board:

"George Scorsis"
Signed: CEO and Director

"Rene Gulliver"
Signed: CFO

Liberty Health Sciences Inc.

(formerly, SecureCom Mobile Inc.)

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(In Canadian dollars)

	Note	For the three months ended November 30,		For the nine months ended	For the period from May 1 to
		2018	2017	November 30, 2018	November 30, 2017
Revenue		\$ 3,172,097	121,207	\$ 6,532,505	173,024
Cost of sales					
Cost of goods sold	4	1,926,568	208,745	4,202,420	356,260
Depreciation	8, 9	320,383	82,064	754,229	149,923
Change in fair value of biological assets	5	(902,096)	(437,929)	(2,572,061)	(710,168)
Total cost of sales		1,344,855	(147,120)	2,384,588	(208,985)
Gross profit		1,827,242	268,327	4,147,917	377,009
Operating expenses					
Professional fees		611,491	693,039	1,957,668	1,104,419
Employee and staff costs		679,269	356,247	1,977,564	691,373
Office and general		493,978	158,769	1,091,866	239,576
Consulting fees		39,342	135,194	85,282	338,838
Travel and entertainment		249,266	114,397	612,667	241,739
Interest expense		471,297	74,197	1,407,116	74,197
Advertising and marketing		1,192,738	35,126	1,857,065	180,423
Insurance		166,815	38,713	478,528	137,772
Selling costs		456,572	33,929	1,324,359	51,012
Facilities expenses and leases		229,793	14,068	1,046,059	14,068
Royalty	14	413	-	152,407	-
Depreciation	8, 9	469,337	419,880	1,403,275	873,477
Share-based compensation	13	1,103,612	35,308	3,482,889	681,642
Total operating expenses		6,163,923	2,108,867	16,876,745	4,628,536
Non-operating items					
Other (income) expense		397,923	(20,085)	349,551	(34,797)
Investor relations and filing fees		101,623	283,557	546,795	491,929
Application costs		35,913	-	290,409	-
Transaction costs		29,666	81,266	563,803	20,674,851
Legal settlement		-	595,900	-	595,900
Write-off of intangible asset	9	2,463,469	-	2,463,469	-
Interest accretion	10	517,332	38,315	1,478,725	38,315
Change in fair value of embedded derivative	10	1,755,809	(1,534,907)	129,884	(1,534,907)
Foreign exchange (gain) loss		60,413	(171,983)	(72,848)	327,434
Total other non-operating items		5,362,148	(727,937)	5,749,788	20,558,725
Net loss		(9,698,829)	(1,112,603)	(18,478,616)	(24,810,252)
Other comprehensive loss					
Foreign currency translation adjustment		4,078,840	1,387,161	5,086,774	(2,121,737)
Net comprehensive gain (loss)		\$ (5,619,989)	\$ 274,558	\$ (13,391,842)	\$ (26,931,989)
Weighted average number of shares		340,370,392	251,862,600	328,125,628	239,158,043
Net loss per share – basic and diluted		\$ (0.03)	\$ (0.00)	\$ (0.06)	\$ (0.10)

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(In Canadian dollars)

	Number of common shares	Share capital	Warrant reserve	Contributed surplus	Accumulated other comprehensive income	(Deficit) retained earnings	Total shareholders' equity
Balance as 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 – legal settlement	505,000	595,900	-	-	-	-	595,900
Share issuance – options exercised	16,833	21,334	-	(1,334)	-	-	20,000
Share-based payments	-	-	-	681,642	-	-	681,642
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	-	-	-	-	(2,121,737)	(24,810,252)	(26,931,989)
Balance as at November 30, 2017	284,543,026	\$ 88,861,582	\$ 769,410	\$ 697,216	\$ (2,121,737)	\$ (24,332,054)	\$ 63,874,417
Share issuance – 242 Cannabis acquisition	18,815,322	24,459,919	4,232,653	-	-	-	28,692,572
Share-based payments	-	-	-	1,759,453	-	-	1,759,453
Net comprehensive loss for the period	-	-	-	-	(327,993)	(4,035,254)	(4,363,247)
Balance as at February 28, 2018	303,358,348	\$ 113,321,501	\$ 5,002,063	\$ 2,456,669	\$ (2,449,730)	\$ (28,367,308)	\$ 89,963,195
Bought deal – cash, net of issuance costs	25,555,875	15,738,065	5,571,763	-	-	-	21,309,828
Share issuance – debt settlement	10,092,583	7,892,400	-	-	-	-	7,892,400
Exercise of warrants	3,480,944	4,525,228	(696,189)	-	-	-	3,829,039
Share-based payments	-	-	-	3,482,889	-	-	3,482,889
Net comprehensive loss for the period	-	-	-	-	5,086,774	(18,478,616)	(13,391,842)
Balance as at November 30, 2018	342,487,750	\$ 141,477,194	\$ 9,877,637	\$ 5,939,558	\$ 2,637,044	\$ (46,845,924)	\$ 113,085,509

Liberty Health Sciences Inc.

(formerly, SecureCom Mobile Inc.)

Condensed Interim Consolidated Statements of Cash Flows

(In Canadian dollars)

	Note	For the nine months ended November 30, 2018	For the period from May 1 to November 30, 2017
Operating activities			
Net loss		\$ (18,478,616)	\$ (24,810,252)
Adjustments for:			
Depreciation	8, 9	2,157,504	1,023,400
Change in fair value of biological assets	5	(2,572,061)	(710,168)
Share-based compensation	13	3,482,889	681,642
Non-cash transaction costs		-	20,150,860
Non-cash legal settlement		-	595,900
Interest accretion	10	1,478,725	38,315
Change in fair value of embedded derivative	10	129,884	(1,534,907)
Write-off of intangible asset	9	2,463,469	-
Change in fair value of investments	7	552,092	-
Disposal of assets		422,922	-
Effect of exchange rate changes		(1,103,462)	(264,623)
Changes in non-cash working capital			
Inventory		(3,950,571)	(812,303)
Biological assets		2,241,415	168,059
Prepaid expenses and other current assets		(1,508,447)	(280,450)
Deposits		1,812,435	(71,438)
Accounts payable and accrued liabilities		3,642,825	(344,345)
Deferred rent		(56,272)	14,068
		(9,285,269)	(6,156,242)
Investing activities			
Purchase of equipment	8	(26,340,812)	(2,830,370)
Cash received from acquisitions		-	3,026,807
Purchase and sale of investments, net	7	(1,377,704)	(325,003)
Issuance of promissory note	6	(2,948,792)	-
Acquisition of Chestnut Hill Tree Farm LLC		-	(45,398,694)
		(30,667,308)	(45,527,260)
Financing activities			
Share capital issued for cash, net of issuance costs	11	25,138,867	31,796,913
Cash received from options exercised		-	20,200
Net proceeds from convertible debt issuance		-	15,386,373
Share capital issued to repay debt	11	7,892,400	-
Finance lease		(61,540)	(44,810)
		32,969,727	47,158,676
Net decrease in cash and term deposits		(6,982,850)	(4,524,826)
Cash and term deposits, beginning of period		26,145,379	26,365,123
Cash and term deposits, end of period		\$ 19,162,529	\$ 21,840,297

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

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended November 30, 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 and registered office of the Company is located at 35 McCaul Street, Suite 201, Toronto, ON, 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.). The Company also has a joint venture with the Schottenstein Group in the state of Ohio, USA. The joint venture holds a dispensary and processing licence and both the dispensary and processing businesses are expected to be operational during 2019.

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. The Company's common shares resumed trading on the Canadian Securities Exchange under the symbol "LHS" on July 26, 2017.

These condensed interim consolidated financial statements were approved by the Company's Board of Directors on January 25, 2019.

2. Basis of presentation

(a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting. These condensed interim consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the period from May 1, 2017 to February 28, 2018, which have been 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 condensed interim 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 condensed interim 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 of Chestnut Hill Tree Farms LLC in fiscal 2018. 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 condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

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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.

The Company accounts for joint ventures using the equity method. The joint ventures are initially measured at cost and then revalued for the Company's share in the profits and losses.

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

(e) Foreign currency translation

All figures presented in the condensed interim 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.

(f) 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.

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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.

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

These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited consolidated financial statements of the Company for the period from May 1, 2017 to February 28, 2018.

New standards and interpretations adopted in the current period

The Company implemented the following amendments for the period beginning on March 1, 2018:

IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2018, 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, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers.

The Company has adopted these new rules retrospectively from March 1, 2018 with the practical expedients permitted under the standards. Comparatives were not restated.

4. Inventory

Inventory is comprised of:

	November 30, 2018	February 28, 2018
Harvested cannabis	\$ 2,028,640	\$ 104,413
Extracted cannabis oil	2,321,401	1,859,828
Packaged cannabis oil	1,897,382	332,611
	\$ 6,247,423	\$ 2,296,852

Inventory recognized as an expense in cost of sales for the three and nine months ended November 30, 2018 was US\$833,167 (\$1,083,806) and US\$2,572,129 (\$3,345,896), respectively (three months ended November 30, 2017 and period from May 1 to November 30, 2017 was US\$68,215 (\$85,654) and US\$80,865 (\$101,995), respectively).

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(In Canadian dollars unless otherwise noted)

5. 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
Balance as at February 28, 2018	\$ 743,896
Cost incurred until harvest	2,051,731
Effect of changes in fair value of biological assets	2,572,061
Transferred to inventory upon harvest	(4,368,879)
Effect of foreign exchange	29,224
Balance as at November 30, 2018	\$ 1,028,033

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 flowering stage.

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

6. Promissory note

On March 27, 2018, the Company announced that it had agreed to acquire a 75% ownership interest in Massachusetts-based William Noyes Webster Foundation Inc. ("WNWF") for US\$16 million, pursuant to a binding term sheet. WNWF owns an integrated medical cannabis license in the Commonwealth of Massachusetts. 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.

As part of the transaction, the Company agreed to lend US\$2,277,411 (\$2,948,792) during the second quarter of fiscal 2019 to WNWF under a promissory note accruing 5% interest annually. The promissory

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note is payable to the Company either on the completion of closing and can be credited against the purchase price, or on March 27, 2019 if earlier than closing.

Security on the promissory note consists of the integrated medical cannabis license held by WNWF as well as certain fixed assets of WNWF.

7. Investments

In June 2018, the Company entered into a subscription agreement with Promedia Investments Inc. ("Promedia") for the purchase of 150,000 shares of Promedia for a total cost of US\$150,000 (\$196,390). Promedia's sole asset is an investment in PROHBT Media Inc. The Company recognized a loss from the change in fair value of \$3,690 and \$3,125 during the three and nine months ended November 30, 2018, respectively, resulting from changes in foreign exchange.

In April 2018, the Company entered into a subscription agreement with Isodiol International Inc. ("Isodiol") for the purchase of 1,369,863 units of Isodiol for a total cost of \$1,000,000. Each unit was comprised of one common share of Isodiol and one common share purchase warrant of Isodiol, exercisable at a price of \$1.00 per warrant for a period of three years from the closing of the agreement. At July 23, 2018, Isodiol enacted a reverse stock split that subsequently modified the strike price of the common share purchase warrant to \$10.00. At November 30, 2018, the Company determined the fair value of the common shares based on the market price of the common shares at November 30, 2018 and determined the fair value of the warrants based on a Black-Scholes valuation model using the following assumptions: stock price of \$1.60; expected life of 2.5 years; \$nil dividends; 160% volatility; risk-free interest rate of 2.220%; and exercise price of \$10.00. The Company recognized a loss of \$361,656 and \$552,092 during the three and nine months ended November 30, 2018, respectively, on its investment in Isodiol.

During the three months ended November 30, 2018, the Company sold 34,200 common shares of Isodiol for proceeds of \$108,367, realizing a loss of \$78,359.

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 (\$332,525). The Company recognized a gain from the change in fair value of \$6,150 and \$12,300 during the three and nine months ended November 30, 2018, respectively, resulting from changes in foreign exchange.

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(In Canadian dollars unless otherwise noted)

8. Capital assets

	Land	Greenhouse infrastructure	Vehicles	Furniture & equipment	Leasehold improvements	Construction in progress	Total capital assets
Cost							
As at 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)
As at February 28, 2018	\$ 2,369,442	\$ 19,450,173	\$ 197,399	\$ 1,832,042	\$ 430,749	\$ 1,286,034	\$ 25,565,839
Additions	-	222,860	279,097	3,747,476	706,911	21,071,239	26,027,583
Transfers	-	1,011,008	-	-	1,751,845	(2,762,853)	-
Disposals	-	-	-	-	(163,533)	(262,803)	(426,336)
Effect of foreign exchange	91,011	983,069	13,952	(111,384)	42,729	3,881,478	4,900,855
As at November 30, 2018	\$ 2,460,453	\$ 21,667,110	\$ 490,448	\$ 5,468,134	\$ 2,768,701	\$ 23,213,095	\$ 56,067,941
Accumulated depreciation							
As at April 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	-	85,205	12,919	181,599	1,314	-	281,037
Effect of foreign exchange	-	(242)	(52)	(708)	-	-	(1,002)
As at February 28, 2018	\$ -	\$ 84,963	\$ 12,867	\$ 180,891	\$ 1,314	\$ -	\$ 280,035
Depreciation	-	108,774	56,536	550,117	192,077	-	907,504
Disposals	-	-	-	-	(3,414)	-	(3,414)
Effect of foreign exchange	-	4,673	1,215	11,363	2,180	-	19,431
As at November 30, 2018	\$ -	\$ 198,410	\$ 70,618	\$ 742,371	\$ 192,157	\$ -	\$ 1,203,556
Net book value							
As at February 28, 2018	\$ 2,369,442	\$ 19,365,210	\$ 184,532	\$ 1,651,151	\$ 429,435	\$ 1,286,034	\$ 25,285,804
As at November 30, 2018	\$ 2,460,453	\$ 21,468,700	\$ 419,830	\$ 4,725,763	\$ 2,576,544	\$ 23,213,095	\$ 54,864,385

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(In Canadian dollars unless otherwise noted)

9. Intangible assets

	Licenses	Software	Intellectual property	Total intangible assets
Cost				
As 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)
As at February 28, 2018	\$ 44,439,009	\$ 20,955	\$ 5,000,000	\$ 49,459,964
Additions	-	313,229	-	313,229
Write-off of intangible asset	-	-	(5,000,000)	(5,000,000)
Effect of foreign exchange	1,706,924	804	-	1,728,683
As at November 30, 2018	\$ 46,145,933	\$ 334,988	\$ -	\$ 46,480,921

	Licenses	Software	Intellectual property	Total intangible assets
Accumulated depreciation				
As at April 30, 2017	\$ -	\$ -	\$ -	\$ -
Depreciation	-	8,657	1,286,531	1,295,188
Effect of foreign exchange	-	104	-	104
As at February 28, 2018	\$ -	\$ 8,761	\$ 1,286,531	\$ 1,295,292
Depreciation	-	16,158	1,250,000	1,266,158
Write-off of intangible asset	-	-	(2,536,531)	(2,536,531)
Effect of foreign exchange	-	10,076	-	10,076
As at November 30, 2018	\$ -	\$ 34,995	\$ -	\$ 34,995

	Licenses	Software	Intellectual property	Total intangible assets
Net book value				
As at February 28, 2018	\$ 44,439,009	\$ 12,194	\$ 3,713,469	\$ 48,164,672
Additions	-	313,229	-	313,229
Depreciation	-	(16,158)	(1,250,000)	(1,266,158)
Write-off of intangible asset, net	-	-	(2,463,469)	(2,463,469)
Effect of foreign exchange	1,706,924	(9,272)	-	1,697,652
As at November 30, 2018	\$ 46,145,933	\$ 299,993	\$ -	\$ 46,445,926

In April 2017, the Company entered into a Know-How License Agreement with Aphria, a related party, in exchange for common shares of the Company. The Know-How relates to Aphria's expertise in growing, harvesting and producing cannabis as well as processing automation and other operational improvements. The Company valued the purchase price for this Know-How at \$5,000,000, which the Company estimated to be its fair value, and recognized this asset under intellectual property in the above table. In October 2018, Aphria terminated the Know-How License Agreement and the Company wrote off the remaining balance of the remaining intangible asset of \$2,463,469.

10. 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.

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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 therefore is treated as an embedded derivative for reporting purposes. The fair value of the embedded derivative was \$6,944,868 on the date of issuance and \$3,060,816 as at November 30, 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. The value of the convertible notes payable was \$8,421,027 on the date of issuance and \$10,688,779 as at November 30, 2018.

During the nine months ended November 30, 2018, the notes payable increased by \$1,850,945 representing accretion interest of \$1,511,479 and a foreign exchange loss of \$339,466 and the embedded derivative decreased by \$129,884, representing the change in fair value on the embedded derivative. The Company recorded interest expense of US\$360,000 (\$471,023) and US\$1,080,000 (\$1,405,032) for the three and nine months ended November 30, 2018, respectively.

The fair value of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions in fiscal 2019: stock price of \$1.41; expected life of 1.98; \$nil dividends; 70% volatility; risk-free interest rate of 1.43%; foreign exchange rate of 0.7518; and the exercise price of \$2.00.

11. Share capital

The Company is authorized to issue an unlimited number of common shares. As at November 30, 2018 the Company issued 342,487,750 shares, of which 4,399,998 were held under escrow.

	Number of shares	Amount
Balance as 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
Balance as at February 28, 2018	303,358,348	\$ 113,321,501
Share issuance – cash, net of issuance costs	25,555,875	15,738,066
Share issuance – repayment of debt	10,092,583	7,892,400
Share issuance – warrants exercised	3,480,944	4,525,227
Balance as at November 30, 2018	342,487,750	\$ 141,477,194

In May 2018, the Company closed a bought deal offering, issuing 25,555,875 units of the Company at a price of \$0.90 per unit. Each unit contained one common share and one common share purchase warrant with an exercise price of \$1.10 for a period of two years from closing. 1,533,352 broker warrants were issued as part of the transaction, consisting of warrants exercisable at \$0.90 for a period of two years from closing to acquire one common share and one common share purchase warrant with an exercise price of \$1.10 for a period of two years from closing (note 11). Cash issuance costs of \$1,690,459 were paid in respect of this offering.

In July 2018, the Company issued 10,092,583 common shares from treasury at a price of \$0.782 per share to settle US\$6,000,000 of outstanding payments to Thermo Energy Systems Inc. Outstanding

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invoices to Thermo Energy Systems Inc. were in respect of ongoing retrofitting and construction services performed at the Company's Liberty 360 Innovation Campus.

12. Warrant reserve

	Number of warrants	Weighted average exercise price
Balance as at April 30, 2017	-	\$ -
Issued during the period	12,402,853	1.72
Balance as at February 28, 2018	12,402,853	\$ 1.72
Issued during the period	27,089,227	1.09
Exercised during the period	(3,480,944)	1.10
Balance as at November 30, 2018	36,011,136	\$ 1.31

On May 10, 2018, the Company issued 25,555,875 common share purchase warrants as part of its bought deal offering (note 11). Each warrant is exercisable at \$1.10 per share and expires two years from closing. The fair value of these warrants on the grant date was \$5,052,406, using the relative value method.

As part of the bought deal offering on May 10, 2018, 1,533,352 broker warrants to acquire one common share and one common share purchase warrant exercisable at \$1.10 per share for a period of two years from closing were issued (note 11). Each broker warrant is exercisable at \$0.90 per unit and expires two years from closing. The fair value of these warrants on the grant date was \$519,357.

The warrant details of the Company are as follows:

Expiry date	Exercise price	Number of warrants	Vested and exercisable
July 21, 2019	\$ 0.62	2,995,192	2,995,192
May 10, 2020	\$ 1.10	22,074,931	22,074,931
May 10, 2020	\$ 0.90	1,533,352	1,533,352
February 15, 2021	\$ 2.07	9,407,661	9,407,661
Balance as at November 30, 2018		36,011,136	36,011,136

The Company used the Black-Scholes valuation model to measure the initial value of granted warrants issued in May 2018 using the following assumptions: risk-free rate of 1.920% expected life of 2 years; \$nil dividends; and 75% volatility based on comparable companies.

13. 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 \$1,103,612 and \$3,482,889 during the three and nine months ended November 30, 2018 (three months ended November 30, 2017 and period from May 1 to November 30, 2017 was \$35,308 and \$681,642, respectively).

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	Number of options	Weighted average exercise price
Balance as at April 30, 2017	-	\$ -
Issued during the period	10,016,665	1.43
Exercised during the period	(16,833)	1.20
Balance as at February 28, 2018	9,999,832	\$ 1.43
Issued during the period	450,000	0.92
Forfeited during the period	(15,000)	1.07
Expired during the period	(239,832)	1.25
Balance as at November 30, 2018	10,195,000	\$ 1.35

The option details of the Company are as follows:

Expiry date	Exercise price	Number of options	Vested and exercisable
July 24, 2019	\$ 1.00	200,000	200,000
July 24, 2019	\$ 1.50	200,000	200,000
July 24, 2019	\$ 2.00	200,000	200,000
July 28, 2022	\$ 0.62	1,500,000	1,000,000
October 23, 2022	\$ 1.07	395,000	269,164
December 4, 2022	\$ 1.62	7,250,000	908,332
July 4, 2023	\$ 0.92	450,000	150,000
Balance as at November 30, 2018		10,195,000	2,927,496

14. 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 for the three and nine months ended November 30, 2018 are \$126,692 and \$521,621, respectively paid to key management personnel. Share-based compensation expense for key management personnel for the three and nine months ended November 30, 2018 was \$1,057,299 and \$3,289,621, respectively.

Under the Trademark License Agreement with Aphria, Liberty accrued \$119,535 of royalty expenses payable as at November 30, 2018 in respect of sales of licensed products.

15. Financial risk management and financial instruments

Financial instruments

The Company's financial instruments consist of cash and term deposits, investment, accounts payable and accrued liabilities, convertible notes payable and embedded derivative.

The carrying values of accounts payable and accrued liabilities 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.

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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	Total
Financial assets				
Cash and term deposits	\$ 19,162,529	\$ -	\$ -	\$ 19,162,529
Investments	261,212	-	900,051	1,161,263
As at November 30, 2018	\$ 19,423,741	\$ -	\$ 900,051	\$ 20,323,792

Financial liabilities				
Embedded derivative	\$ -	\$ -	\$ 3,060,816	\$ 3,060,816
As at November 30, 2018	\$ -	\$ -	\$ 3,060,816	\$ 3,060,816

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, a portion of its other receivables, a portion of its investments, its promissory note and convertible notes payable in United States dollars, which totaled US\$12,037,412, US\$200,000, US\$676,678, US\$2,277,411 and US\$12,000,000, respectively, as of November 30, 2018 (February 28, 2018 – US\$14,361,680, US\$200,000, US\$250,000, US\$nil and US\$12,000,000) 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 \$42,450. The Company does not maintain any contract to hedge against any fluctuation on foreign exchange rate.

(c) Credit risk

The maximum credit exposure at November 30, 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 November 30, 2018, the Company's financial liabilities consist of accounts payable and accrued liabilities and its convertible notes payable. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. Based on the Company's working capital position at November 30, 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

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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.