CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

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

FOR THE YEAR ENDED FEBRUARY 28, 2019 AND PERIOD ENDED FEBRUARY 28, 2018

(in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Liberty Health Sciences Inc. (formerly SecureCom Mobile Inc.):

Opinion

We have audited the consolidated financial statements of Liberty Health Sciences Inc. (formerly SecureCom Mobile Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and February 28, 2018, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended February 28, 2019 and for the period from May 1, 2017 to February 28, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at February 28, 2019 and February 28, 2018, and its consolidated financial performance and its consolidated cash flows for the year ended February 28, 2019 and for the period from May 1, 2017 to February 28, 2018, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net comprehensive loss of $22,293,815 during the year ended February 28, 2019 and as of that date, had an accumulated deficit of $50,661,123 and negative cash flows from operating activities of $14,286,723 for the year ended February 28, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Jonathan MacNeil.

MNP LLP

Toronto, Ontario
July 1, 2019

Chartered Professional Accountants
Licensed Public Accountants

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Liberty Health Sciences Inc.
(formerly, SecureCom Mobile Inc.)
February 28, 2019

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

Consolidated Statements of Financial Position

(In Canadian dollars)

	Note	As at February 28, 2019	As at February 28, 2018
Assets			
Current assets			
Cash and term deposits		$ **13,291,426**	$ 26,145,379
Inventory	**6**	**15,143,740**	2,296,852
Biological assets	**7**	**1,089,990**	743,896
Other receivables		**1,123,432**	395,689
Prepaid assets		**862,090**	226,715
Total current assets		$ **31,510,678**	$ 29,808,531
Deposits		**480,004**	2,204,819
Investments	**9**	**3,366,521**	320,225
Investment in joint ventures	**10**	**240,193**	-
Capital assets	**11**	**56,282,086**	25,285,804
Intangible assets	**12**	**46,031,663**	48,164,672
Total assets		$ **137,911,145**	$ 105,784,051
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ **9,505,264**	$ 3,556,446
Finance lease		**-**	61,540
Total current liabilities		**9,505,264**	3,617,986
Convertible notes payable	**13**	**11,124,391**	8,837,835
Embedded derivative	**13**	**2,586,646**	2,930,932
Deferred rent		**-**	56,272
Deferred tax liability	**18**	**1,424,717**	377,831
Total liabilities		**24,641,018**	15,820,856
Shareholders' equity			
Share capital	**14**	**145,242,352**	113,321,501
Warrant reserve	**15**	**9,355,242**	5,002,063
Contributed surplus	**16**	**8,962,134**	2,456,669
Accumulated other comprehensive loss		371,522	(2,449,730)
(Deficit) retained earnings		**(50,661,123)**	(28,367,308)
Total shareholders' equity		**113,270,127**	89,963,195
Total liabilities and shareholders' equity		$ **137,911,145**	$ 105,784,051

Nature of operations and going concern (Note 1)
Contingent Liability (Note 20)
Commitments (Note 21)

Approved on behalf of the Board:

"Victor Mancebo"
Signed: Interim CEO and Director

"Sheri Cholodofsky"
Signed: CFO

Liberty Health Sciences Inc.
(formerly, SecureCom Mobile Inc.)
Consolidated Statements of Loss and Comprehensive Loss
(In Canadian dollars)

	Note	For the year ended February 28, 2019	For the period from May 1, 2017 to February 28, 2018
Revenue, net of discounts		**$ 10,002,538**	$ 605,273
Cost of sales			
Cost of goods sold, net	**6**	**2,339,093**	933,876
Gross profit before biological asset adjustment		**7,663,445**	(328,603)
Realized fair value amounts included in the cost of inventory sold		**(1,611,679)**	-
Unrealized gains resulting from fair value changes on growth of biological assts	**7**	**7,927,258**	1,311,671
Gross profit		**13,979,024**	983,068
Operating expenses			
Professional fees		**3,474,380**	1,756,648
Employee and staff costs		**3,763,525**	1,325,296
Office and general		**1,582,560**	455,609
Consulting fees		**85,503**	656,803
Travel and entertainment		**794,360**	364,773
Advertising and marketing		**2,312,657**	290,555
Insurance		**799,278**	339,182
Selling costs		**2,109,280**	230,443
Facilities expenses and leases		**2,022,068**	61,158
Royalty		**466,554**	18,126
Depreciation	**11**	**375,977**	54,557
Amortization	**12**	**1,296,431**	1,295,188
Share-based compensation	**16**	**6,505,465**	2,440,895
Investor relations and filing fees		**1,082,865**	846,860
Application costs		**290,409**	544,443
Total operating expenses		**26,961,312**	10,680,536
Non-operating items			
Other loss (income)		**109,504**	(87,312)
Change in fair value of investments		**(998,687)**	4,777
Interest expense		**605,499**	530,863
Loss on investment in joint ventures	**10**	**578,362**	-
Transaction costs		**597,806**	20,817,958
Legal settlement	**14**	**-**	595,900
Loss on settlement of liability	**14**	**1,493,799**	-
Provision on promissory note	**8**	**2,999,122**	-
Impairment of intangible asset	**12**	**2,463,469**	-
Interest accretion	**13**	**719,871**	461,181
Change in fair value of embedded derivative	**13**	**(344,286)**	(4,013,936)
Foreign exchange loss		**40,182**	460,776
Total other non-operating items		**8,264,641**	18,770,207
Net loss before tax		**(21,246,929)**	(28,467,675)
Deferred income tax	**18**	**1,046,886**	377,831
Net loss		**(22,293,815)**	(28,845,506)
Other comprehensive loss			
Foreign currency translation adjustment		**2,821,252**	(2,449,730)
Net comprehensive loss		**$ (19,472,563)**	$ (31,295,236)
Weighted average number of shares – basic and diluted		**332,066,035**	267,030,945
Net loss per share – basic and diluted		**$ (0.07)**	$ (0.11)

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

Consolidated Statements of Changes in Shareholders' Equity

(In Canadian dollars)

	Note	Number of common shares	Share capital	Warrant reserve	Contributed surplus	Accumulated other comprehensive income (loss)	(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	**14**	54,727,532	31,027,503	769,410	-	-	-	31,796,913
Share issuance – 242 Cannabis acquisition	**14**	18,815,322	24,459,919	4,232,653	-			28,692,572
Share issuance – legal settlement	**14**	505,000	595,900	-	-	-	-	595,900
Share issuance – options exercised	**14**	16,833	21,334	-	(1,134)	-	-	20,200
Share-based payments	**16**	-	-	-	2,440,895	-	-	2,440,895
Shares retained by Securecom shareholders	**4**	43,348,149	27,049,244	-	-	-	-	27,049,244
Options retained by Securecom shareholders	**4**	-	-	-	16,908	-	-	16,908
Net comprehensive loss for the period		-		-	-	(2,449,730)	(28,845,506)	(31,295,236)
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	**15**	25,555,875	**15,518,617**	**5,791,272**	**-**	**-**	**-**	**21,309,889**
Share issuance – debt settlement	**14**	10,092,583	**9,386,102**	**-**	**-**	**-**	**-**	**9,386,102**
Exercise of warrants	**15**	6,283,829	**7,016,132**	**(1,438,093)**	**-**	**-**	**-**	**5,578,039**
Share-based compensation	**16**	-	**-**	**-**	**6,505,465**	**-**	**-**	**6,505,465**
Net comprehensive loss for the year		-	**-**	**-**	**-**	**2,821,252**	**(22,293,815)**	**(19,472,563)**
Balance as at February 28, 2019		**345,290,635**	**$ 145,242,352**	**$ 9,355,242**	**$ 8,962,134**	**$ 371,522**	**$ (50,661,123)**	**$ 113,270,127**

Liberty Health Sciences Inc.
(formerly, SecureCom Mobile Inc.)
Consolidated Statements of Cash Flows
(In Canadian dollars)

	Note	For the year ended February 28, 2019	For the period from May 1, 2017 to February 28, 2018
Operating activities			
Net loss		**$ (22,293,815)**	$ (28,845,506)
Adjustments for:			
Depreciation	**11**	**1,412,748**	281,037
Amortization	**12**	**1,296,431**	1,295,188
Change in fair value of biological assets	**7**	**(6,315,579)**	(1,311,671)
Share-based compensation	**16**	**6,505,465**	2,440,895
Non-cash transaction costs		**-**	20,150,860
Non-cash legal settlement		**-**	595,900
Accretion expense	**13**	**719,871**	461,181
Interest expense on convertible debt	**13**	**605,499**	-
Change in fair value of embedded derivative	**13**	**(344,286)**	(4,013,936)
Provision on promissory note	**8**	**2,999,122**	-
Impairment of intangible asset	**12**	**2,463,469**	-
Change in fair value of investments	**9**	**(998,687)**	-
Deferred income tax	**18**	**1,046,886**	377,831
Disposal of assets		**344,063**	-
Loss on investment in joint ventures	**10**	**578,362**	-
Loss on settlement of liability		**1,493,799**	-
Changes in non-cash working capital			
Inventory		**(13,808,958)**	(876,974)
Biological assets		**6,008,015**	(86,190)
Prepaid expenses		**(635,375)**	(218,475)
Other current assets		**(727,743)**	(395,689)
Deposits		**1,724,815**	(2,204,819)
Accounts payable and accrued liabilities		**3,695,447**	2,541,876
Deferred rent		**(56,272)**	56,272
		(14,286,723)	(9,752,220)
Investing activities			
Purchase of capital assets and intangible assets	**11,12**	**(21,128,017)**	(9,758,394)
Cash received from disposal of investment		**108,414**	-
Cash received from acquisitions		**-**	18,226,807
Purchase and sale of investments, net	**9**	**(1,196,390)**	(320,225)
Issuance of promissory note	**8**	**(2,948,792)**	-
Acquisition of Chestnut Hill Tree Farm LLC (net of cash acquired)		**-**	(45,398,694)
		(25,164,785)	(37,250,506)
Financing activities			
Share capital issued for cash, net of issuance costs	**14**	**21,309,889**	31,796,913
Repayment of interest on convertible debt	**13**	**(1,064,448)**	
Cash received from warrants exercised	**15**	**5,578,039**	-
Cash received from options exercised	**16**	**-**	20,200
Net proceeds from convertible debt issuance	**13**	**-**	15,284,630
Finance lease		**(61,540)**	(65,018)
		25,761,940	47,036,725
Effect of exchange rate changes		**835,615**	(253,743)
Net decrease in cash and term deposits		**(12,853,953)**	(219,744)
Cash and term deposits, beginning of year and period		**26,145,379**	26,365,123
Cash and term deposits, end of year and period		**$ 13,291,426**	$ 26,145,379

1. Nature of operations and going concern

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 425-180 John Street, Toronto, ON M5T 1X5.

The Company’s principal business activity is the production and distribution of medical cannabis through its wholly-owned subsidiary DFMMJ Investments, LLC (d/b/a Liberty Health Sciences Florida Ltd.). The Company also has three joint ventures with the Schottenstein Group in the state of Ohio, USA.

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.

The Company has not generated any revenues from operations and has incurred losses since inception. The Company incurred a net loss of $22,293,815 during the year ended February 28, 2019 (2018 - $28,845,506), and as of that date had an accumulated deficit of $50,661,123 (2018 - $28,367,308) and negative cash flows from operating activities of $14,286,723 (2018 - $9,752,220). To date the Company’s activities have been funded through financing activities. These factors indicate the existence of a material uncertainty that may cast significant doubt as to the Company’s ability to continue as a going concern.

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that could result should the Company be unable to continue as a going concern.

These consolidated annual financial statements were approved by the Company’s Board of Directors on July 1, 2019.

2. Basis of presentation

(a) Statement of compliance

The policies applied in these consolidated annual 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 annual 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 annual 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 Investments, 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 Investments, LLC operates due to the acquisition of Chestnut Hill Tree Farm, 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 consolidated annual financial statements from the date that control commences until the date that control ceases.

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 its investments in joint ventures using the equity method. The joint ventures are initially measured at cost and then adjusted 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 Investments, LLC (d/b/a Liberty Health Sciences Florida Ltd.)	Florida, USA	Consolidation
242 Cannabis, LLC	Florida, USA	Consolidation
Liberty Health Sciences Ohio LLC I (50.1% interest in Schottenstein Aphria I LLC JV)	Ohio, USA	Consolidation (Equity for JV)
Liberty Health Sciences Ohio LLC II (50.1% interest in Schottenstein Aphria II LLC JV)	Ohio, USA	Consolidation (Equity for JV)
Liberty Health Sciences Ohio LLC III (50.1% interest in Schottenstein Aphria III LLC JV)	Ohio, USA	Consolidation (Equity for JV)

(e) Foreign currency translation

All figures presented in the consolidated annual 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.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

(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

Determination of the fair value of the biological assets requires the Company to make a number of estimates primarily related to the fair value at point of harvest, attrition rates, expected future yields from the cannabis plants and estimating plants at various phases of the growth cycle.

The valuation of biological assets at the point of harvest is the cost basis for all cannabis-based inventory and thus any critical estimates and judgements related to the valuation of biological assets are also applicable for inventory. The Company must also determine if the cost of any inventory exceeds its net realized value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

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 (or "CGU") 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.

Expected credit losses

The Company measures expected credit losses in accordance with IFRS 9 – Financial instruments. Under this approach, the Company estimates the lifetime expected credit losses of financial instruments. In the case of an expected credit loss, the Company creates an impairment.

Derivative liabilities

The Company uses the fair value method of accounting for derivative liabilities and such liabilities are re-measured at each reporting date with changes in fair value recorded in the period incurred. The fair value is estimated using a Black-Scholes model.

Financial instruments

The Company evaluates the fair value of investments at the end of each reporting period. In addition to investment-specific information, the Company considers general market trends, conditions and transactions. Financial information for private companies in which the Company has investments may not be available and, even if available, that information may be limited and/or unreliable. Use of the valuation approach described below may involve uncertainties and determinations based on the Company's judgment and any value estimated from these techniques may not be realized or realizable.

The fair value of investments may be adjusted if:

1. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place
2. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value
3. The investee company is placed into receivership or bankruptcy
4. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern
5. The investee company makes important positive/negative management changes that the Company's management believes will have a positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders

CGU Determination

The Company determines its cash-generating units ("CGUs") in accordance with IAS 36 – Impairment of Assets, defined as the smallest group of assets that independently generate cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

3. Significant accounting policies

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

(a) Revenue, net of discounts

The IASB's new revenue recognition standard IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") was adopted by the Company on March 1, 2018. The new standard replaces IAS 18 - Revenue and provides for a single model that applies to all contracts with customers with two types of recognition – at a point in time or over time. The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative periods or transitional adjustments required as a result of adoption. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

1. Identify the contract with a customer
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation(s)
5. Recognize revenue when/as performance obligation(s) are satisfied

The Company manufactures and sells cannabis and cannabis-derived products. Revenue from the sale of goods is recognized when the Company sells a product to a customer. Payment of the transaction is due immediately when the customer purchases the product and takes delivery either in store or at a predetermined delivery location dictated by the customer. Due to the nature of the products sold, it is the Company's policy to not accept returned items under most circumstances unless products are defective. As a result, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur. The validity of this assumption is reassessed at each reporting date.

The Company has a loyalty rewards program that allows customers to earn reward credits to be used on future purchases. Loyalty reward credit issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. The loyalty rewards are shown as reductions to revenue, net of discounts on the accompanying consolidated statements of loss and comprehensive loss.

(In Canadian dollars unless otherwise noted)

Upon adoption of IFRS 15, the company recognizes revenue from dispensary customers and delivery customers.

The following table represents the company's revenue disaggregated by source for the year ending February 28, 2019 and the period from May 1, 2017 to February 28, 2018:

	For the year ended February 28, 2019	For the period from May 1, 2017 to February 28, 2018
Dispensary	**6,583,653**	107,658
Delivery	**3,418,885**	497,615
Total revenue	**10,002,538**	**605,273**

(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

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 as incurred, including labour related costs, consumables, materials, utilities, packaging supplies, facilities costs, quality and testing costs, and production related depreciation. Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Supplies and consumables are valued at lower of costs and net realized value, which costs determined based on average cost basis.

(d) Biological assets

The Company's biological assets consist of medical cannabis plants. The Company capitalizes all direct and indirect costs as incurred related to the transformation of the biological assets between the point of initial recognition and the point of harvest, including labour related costs, grow consumables, materials, utilities, facilities costs including an allocation of overhead costs related o production facility and production related depreciation. The Company then measures the biological assets at fair value less costs to sell and costs to complete up to the point of harvest, which becomes the basis for the cost of internally produced work in progress and finished goods inventories after harvest. Unrealized 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 to sell includes post harvest production costs and fulfilment costs.

(e) Capital assets

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

Amortization is not recognized until the asset is determined to be ready for use. 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
Computers	Straight-line	3 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 loss and comprehensive 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 software and purchased licenses and permits. All are recorded at cost less accumulated amortization. Amortization of software is recorded on a straight-line basis over the estimated useful life of 1 year. 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. 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 loss and comprehensive 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. 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 per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. As the company had a loss during the year, the effect of options and warrants 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 loss and comprehensive loss such that the cumulative expense reflects the revised estimate.

(k) Investment in joint arrangements

The Company has certain investments in joint arrangements. On recognition, the Company assesses whether an investment is jointly controlled through an evaluation of the management structure and agreements. If jointly controlled, the Company then determines whether the joint arrangement is considered to be a joint venture recognized as an equity investment, or a joint operation recognized on a consolidated basis. Parties to joint ventures have rights to the net profits of the arrangement, whereas parties to joint operations have rights to the assets and obligations for the liabilities of the arrangement. The Company's investments in joint arrangements have been determined to be joint ventures.

The Company exercises judgement in determining whether it has joint control relating to its investments in joint ventures. The Company has considered relevant activities of the joint ventures that are established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Under the equity method of accounting for joint ventures, the investments are initially recognized at cost and adjusted thereafter for the Company's share of the profits or losses of the joint venture. This adjustment is recognized in profit or loss.

(l) Investments and other financial assets

(i) Classification

Financial assets are classified into two categories based on measurement:

- amortized cost; and
- measurement at fair value either through other comprehensive income ("OCI") or through profit and loss.

This classification depends on the Company's business model for managing its financial assets and contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on their trade date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in finance income using the effective interest rate method. Impairment expenses are presented as separate line item in the statement of profit or loss.

FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The group subsequently measures all equity investments at fair value. Where the Company has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in the consolidated statement of loss. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From March 1, 2018, the Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost . The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial assets carried at amortized cost, the Company recognizes loss allowances for expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. The Company applies a three-stage approach to measure ECLs. The Company measures loss allowance at an amount equal to twelve months of expected losses if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1) and at an amount equal to lifetime expected losses if there is a significant increase in credit risk since origination (Stage 2) and at an amount equal to lifetime expected losses which are credit impaired (Stage 3).

The Company considers a significant increase in credit risk to have occurred if contractual payments are more than 30 days past due and considers the financial assets carried at amortized cost to be in default if they are 90 days past due. A significant increase in credit risk or default may have also occurred if there are other qualitative factors (including forward looking information) to consider; such as borrower specific information (i.e. change in credit assessment). Such factors include consideration relating to whether the counterparty is experiencing significant financial difficulty, there is a breach of contract, concessions are granted to the counterparty that would not normally be granted, or it is probable the counterparty will enter into bankruptcy or a financial reorganization.

Significant increases in credit risk are assessed based on changes in probability of default of a financial asset subsequent to initial recognition. The Company uses past due information to determine whether credit risk has increased significantly since initial recognition. Financial assets are considered to have experienced a significant increase in credit risk and are reclassified to Stage 2 if a contractual payment is more than 30 days past due as at the reporting date.

The Company defines default as the earlier of when a contractual payment is more than 90 days past due or when a loan becomes insolvent as a result of customer bankruptcy. Financial assets that have experienced a default event are considered to be credit impaired and are reclassified as Stage 3 loans.

The Company measures ECL by considering the risk of default over the contract period and incorporates forward-looking information into its measurement. ECLs are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status and forward looking macro-economic factors in the measurement of the ECLs associated with its assets carried at amortized cost.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk. The Company's promissory note receivable carried at amortized cost is considered to be in Stage 3 as at February 28, 2019, and the Company has recognized an ECL of $2,999,122 during the year. Refer to Note 8.

(m) Financial liabilities

Financial assets are classified into two categories based on measurement:

- amortized cost; and
- measurement at fair value through profit and loss.

Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied.

Financial liability can be designated to be measured at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or the liability is part or a group of financial liabilities or financial assets and financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

Financial liabilities are derecognized when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised in profit or loss.

(n) 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.

(In Canadian dollars unless otherwise noted)

(o) Classification of financial instruments

Balance Sheet Classification	Classification under IFRS 9	Classification under IAS39
Cash and term deposits	FVTPL	FVTPL
Investments	FVTPL	FVTPL
Other receivables	Amortized cost	N/A
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Convertible notes payable	Amortized cost	Other financial liabilities
Embedded derivative	FVTPL	FVTPL

(p) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction, and production of assets into the cost of the assets. As at February 28, 2019, the underlying assets under construction were the greenhouses and facilities at the Company’s Liberty 360 Campus.

Borrowing costs not directly attributable to an asset are included as expenses.

New standards and interpretations adopted in the current period

The Company implemented the following standards and interpretations 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, impairment for financial assets, and general hedge accounting. As permitted by the transition provisions of IFRS 9, the Company elected not to restate comparative period results. As such, all comparative period information is presented in accordance with the previous accounting policies. New or amended disclosures have been provided for the current period, where applicable, while comparative period disclosures are consistent with those made in prior periods. The company had no transition adjustments upon adoption of IFRS 9.

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. The Company had no transition adjustments upon adoption of IFRS 15.

New standards and interpretations not adopted in the current period

IFRS 16 – In January 2016, the IASB issued IFRS 16 Leases, which replaced IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months unless the underlying asset is of low value. As a lessee, the Company will be required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Substantially all of the Company’s operating leases are real estate leases for dispensaries. As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis.

The standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers, at or before the date of initial adoption of IFRS 16.

For leases where the Company is the lessee, it has the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company has adopted the standard on March 1, 2019 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at March 1, 2019, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

IFRS 16 permits the use of exemptions and practical expedients. The Company expects to apply the following recognition exemptions and practical expedients:

• grandfather lease definition for existing contracts at the date of initial application;

• exclude low-value and short-term leases from IFRS 16 lease accounting;

• use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;

• apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date

of initial application;

• exclude initial direct costs from the measurement of the right-of-use assets at the date of initial

application; and

• use hindsight in determining lease term at the date of initial application.

Based on the information currently available, as a result of the initial application of IFRS 16 as at January 1, 2019, Management anticipates recognizing approximately $17,551,054 of right-of-use assets and approximately $13,108,433 of lease liabilities, on its consolidated statements of financial position, with the difference, net of the deferred tax impact, recorded in opening retained earnings. The Company is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at March 1, 2019.

4. Reverse acquisition

In July 2017, the Company completed its proposed transaction between SecureCom and DFMMJ Investments Ltd. 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.

This transaction was 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. These financial statements represent the continuation of DFMMJ beginning from its date of incorporation (May 1, 2017). The loan receivable was settled as part of pre-existing relationship upon closing of the reverse acquisition.

(In Canadian dollars unless otherwise noted)

Consideration transferred		Amount
43,348,149 shares at a price of $0.624 per share	$	27,049,244
256,665 stock options		16,908
	$	**27,066,152**

Net assets acquired		Amount
Cash and term deposits	$	3,026,807
Prepaid expenses and other current liabilities		6,014
Loan receivable		4,102,710
Accounts payable and accrued liabilities		(220,239)
	$	**6,915,292**

Transaction costs		Amount
Excess attributed to transaction costs	$	20,150,860
Legal fees		427,681
Other		15,044
	$	**20,593,585**

5. Acquisition of Chestnut Hill Tree Farm LLC Assets

The Company, through the wholly-owned subsidiary DFMMJ Investments, 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:

Consideration transferred		Amount
Cash (US$40,000,000)	$	53,960,000
	$	**53,960,000**

Net assets acquired		Amount
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)
	$	**53,960,000**

Intangible assets above include the Company’s license as described in note 12.

6. Inventory

Finished goods inventory consists of concentrates and other products that are complete and available for sale (both internally generated inventory and third-party products purchased in the wholesale market). Work in process inventory consists of cannabis after harvest in the processing stage.

(In Canadian dollars unless otherwise noted)

Packaging and miscellaneous consists of consumables for use in the transformation of biological assets and other inventory used in production of finished goods. The Company's inventories are comprised of:

		February 28, 2019		February 28, 2018
Raw materials				
Harvested cannabis	**$**	**829,689**	$	104,413
Packaging and miscellaneous		**444,116**		-
Total raw materials	**$**	**1,273,805**	$	104,413
Work-in-process		**12,691,530**		1,859,829
Finished goods		**1,178,405**		332,610
Total inventories	**$**	**15,143,740**	$	2,296,852

During the year ended February 28, 2019, the Company recognized $2,339,093 (2018 - $933,876) of inventory expensed to cost of goods sold.

7. Biological assets

Biological assets are comprised of:

		Amount
Balance as at April 30, 2017	$	-
Costs 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		(1,280,415)
Balance as at February 28, 2018	$	743,896
Costs incurred until harvest		4,457,045
Effect of changes in fair value of biological assets		7,927,258
Transferred to inventory upon harvest		(12,038,209)
Balance as at February 28, 2019	**$**	**1,089,990**

The Company values biological assets at the end of each reporting period at fair value less costs to sell. This is determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated price per gram less cost to sell.

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at February 28, 2019 and 2018:

(a) Selling prices – selling prices are based on the Company's average selling price per gram for cannabis flower. Estimated selling prices average $10.54 for cannabis flower.

(b) The stage of plant growth – represents the weighted average number of days out of the 110-day growing cycle that biological assets have reached as at the measurement date. The estimated stage of growth of cannabis plants as at February 28, 2019 averages 38%.

(c) Post-harvest costs –calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants after harvest, consisting of the cost of direct and indirect materials and labor related to labelling and packaging.

(d) Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average dried weight yield of whole flower used is 231 grams per plant for 2019.

(In Canadian dollars unless otherwise noted)

(e) Attrition rate – the estimated attrition rate of cannabis plants as they move from one stage of growth to the next (from germination to vegetative to flowering) based on the Company's historical results. As plants mature at each stage, their attrition rate decreases;

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. The following table presents the effect of 10% positive change and 10% negative change on the fair valuation of biological assets as at February 28, 2019 and 2018.

Assumption	10% change as at February 28, 2019	10% change as at February 28, 2018
Estimated Selling Price	280,172	117,743
Expected number of stages of growth	103,138	56,260
Expected yields for cannabis plants	111,966	61,886
Weighted average of expected loss of plants until harvest	14,020	5,840
After harvest cost to complete and sell	163,047	55,858

8. 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.

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

As at February 28, 2019, the Company classified this promissory note as Stage 3 under its ECL model, and recognized a provision on the promissory note of $2,999,122. Subsequent to year end, the promissory note was in default as of March 27, 2019 and the Company is in negotiations regarding the restructuring of this outstanding obligation.

9. 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). The Company recognized a gain from the change in fair value of $1,145 during the year ended February 28, 2019, resulting from changes in foreign exchange. As such, the ending fair value for this investment is $197,535.

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 at a ratio of one post-consolidated common share to ten pre-consolidated common shares and modifying the strike price of the common share purchase warrants to $10.00.

(In Canadian dollars unless otherwise noted)

On October 12, 2018, the Company sold 34,200 common shares of Isodiol for proceeds of $108,414, realizing a loss of $32,039.

At February 28, 2019, the Company determined the fair value of the common shares based on the market price of the common shares at February 28, 2019. The value of the shares is $152,124 at year end. The Company determined the fair value of the warrants based on a Black-Scholes valuation model using the following assumptions: stock price of $1.48; expected life of 2.2 years; $nil dividends; 160% volatility; risk-free interest rate of 1.780%; and exercise price of $10.00. The value of the warrants at year-end is $76,531. The Company recognized an unrealized loss of $663,008 during the year ended February 28, 2019 on its investments in Isodiol.

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). Green Tank undertook a 12:1 share split during the period. During the year, due to meeting certain commercial activity thresholds, the Company is entitled to receive an additional 281,640 shares at no cost. These shares were included as additional shares to be received amounting to $949,910. As such, the Company determined the fair value of its investment, based on the most recent financing ($2.56 USD per share), is US$2,232,767 ($2,940,331). The Company recognized a gain from the change in fair value of $2,611,106 resulting from the higher valuation in the recent financing round and the additional shares granted, and a gain of $9,077 during the year ended February 28, 2019 and a loss of $4,778 period from May 1, 2017 to February 28, 2018, resulting from changes in foreign exchange.

A reconciliation of the Company's investments is as follows:

		Amount
Balance as at April 30, 2017	$	-
Acquisitions		325,003
Effect of foreign exchange		(4,778)
Balance as at February 28, 2018	$	320,225
Acquisitions of investments		1,196,390
Additional shares to be received		949,910
Disposal of investments		(108,414)
Net unrealized changes in fair value		998,687
Effect of foreign exchange		9,723
Balance as at February 28, 2019	**$**	**3,366,521**

10. Investment in Joint Ventures

In October 2017, the Company entered into joint venture agreements with the Schottenstein Group and created, Schottenstein-Aphria I, LLC ("SAI"), Schottenstein-Aphria II, LLC ("SAII") and Schottenstein-Aphria III, LLC ("SAIII"), with the purpose of entering into cannabis operations in the state of Ohio, USA. The Company owns a 50.1% stake in SAI, SAII, and SAIII.

For the year ending February 28, 2019, the company contributed $816,273 to the joint venture. Also, during the year ending February 28, 2019, the company recorded $578,362 as its proportionate share of the loss in the joint ventures and $2,282 as a foreign exchange gain. The net value of the investment as at February 28, 2019, was $240,193.

(In Canadian dollars unless otherwise noted)

11. 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	4,313,857	706,911	23,910,775	**29,433,500**
Borrowing costs	-	-	-	-	-	2,424,674	**2,424,674**
Transfers	-	1,604,571	-	-	2,970,503	(4,575,074)	**-**
Disposals	-	-	-	(84,674)	-	(262,803)	**(347,477)**
Effect of foreign exchange	66,593	768,043	9,084	(164,558)	(5,324)	184,509	**858,347**
As at February 28, 2019	**$ 2,436,035**	**$ 22,045,647**	**$ 485,580**	**$ 5,896,667**	**$ 4,102,839**	**$ 22,968,115**	**$ 57,934,883**

	Land	Greenhouse infrastructure	Vehicles	Furniture & equipment	Leasehold improvements	Construction in progress	Total capital assets
Accumulated depreciation							
As at April 30, 2017	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Additions	-	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**
Additions	-	155,565	80,482	842,559	334,142	-	**1,412,748**
Disposals	-	-	-	-	(3,414)	-	**(3,414)**
Effect of foreign exchange	-	2,703	514	(43,477)	3,688	-	**(36,572)**
As at February 28, 2019	**$ -**	**$ 243,231**	**$ 93,863**	**$ 979,973**	**$ 335,730**	**$ -**	**$ 1,652,797**

	Land	Greenhouse infrastructure	Vehicles	Furniture & equipment	Leasehold improvements	Construction in progress	Total capital assets
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 February 28, 2019	**$ 2,436,035**	**$ 21,802,416**	**$ 391,717**	**$ 4,916,694**	**$ 3,767,109**	**$ 22,968,115**	**$ 56,282,086**

For the year ended February 28, 2019 depreciation expense was $1,412,748 (2018 - $281,037) of which $943,993 is included in inventory, $92,778 was included in cost of goods sold and $375,977 is included in the consolidated statement of loss.

(In Canadian dollars unless otherwise noted)

As at February 28, 2019, costs related to the construction of certain greenhouse facilities at the Company's Liberty 360 Innovation Campus were capitalized as construction in progress and not depreciated. Depreciation will commence when construction is completed and the facility is available for its intended use.

During the year ended February 28, 2019, $2,424,674 of borrowing costs were capitalized ($nil - $2018).

12. 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	-	361,597	-	**361,597**
Write-off of intangible asset	-	-	(5,000,000)	**(5,000,000)**
Effect of foreign exchange	1,257,112	2,050	-	**1,259,162**
As at February 28, 2019	**$ 45,696,121**	**$ 384,602**	**$ -**	**$ 46,080,723**

	Licenses	Software	Intellectual property	**Total intangible assets**
Accumulated depreciation				
As at April 30, 2017	$ -	$ -	$ -	**$ -**
Additions	-	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**
Additions	-	46,431	1,250,000	**1,296,431**
Write-off of intangible asset	-	-	(2,536,531)	**(2,536,531)**
Effect of foreign exchange	-	(6,132)	-	**(6,132)**
As at February 28, 2019	**$ -**	**$ 49,060**	**$ -**	**$ 49,060**

	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**
As at February 28, 2019	**$ 45,696,121**	**$ 335,542**	**$ -**	**$ 46,031,663**

In April 2017, the Company entered into a Know-How License Agreement with Aphria, a related party in fiscal 2018, 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.

As at February 28, 2019, the carrying value of the License of $45,696,121 were fully attributable to the Company's single CGU. The Company estimated the recoverable amount of the indefinite life intangible asset by estimating the higher of their fair value less costs of disposal and value in use. Key assumptions that drove management's determination of the recoverable amounts were revenue multiples of comparable industry peers and expected revenue growth for future periods. The Company does not believe a slight change in the key assumptions would cause the recoverable amount to fall below the carrying amount.

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 and a mortgage over the Company's Chestnut Hill Tree Farm property. The Chestnut Hill Tree Farm property has a carrying value of $4,540,202.

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 under IFRS. The fair value of the embedded derivative was $6,944,868 on the date of issuance and $2,586,646 as at February 28, 2019. On November 22, 2017, the Company recognized $262,236 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 consolidated statement of loss for the period ended February 28, 2018 and $180,970 being allocated to the debt. The value of the convertible notes payable was $11,124,391 as at February 28, 2019.

During the year ended February 28, 2019, the embedded derivative decreased by $344,286, representing the change in fair value on the embedded derivative. The Company incurred interest expense of US$1,440,000 ($1,720,884) and US$412,541 ($520,823) for the year ended February 28, 2019 and period from May 1, 2017 to February 28, 2018, respectively. Current year interest expense is offset by capitalized borrowing costs of US$854,247 ($1,117,441) and US$nil ($nil) for the year ended February 28, 2019 and period from May 1, 2017 to February 28, 2018, respectively. The Company recorded accretion interest of $2,027,104 and foreign exchange loss of $259,452. $1,307,233 of this accretion was capitalized to borrowing costs with the remainder of $719,871 being expensed. The outstanding interest payable at February 28, 2019 was $789,492 (February 28, 2018 - $461,124).

		Amount
Balance as at April 30, 2017	$	-
Convertible debt issuance, net of transaction costs		15,284,630
Embedded derivative on day 1		(6,944,868)
Interest accretion		461,181
Effect of foreign exchange		36,592
Balance as at February 28, 2018	$	8,837,835
Interest accretion		2,027,104
Effect of foreign exchange		259,452
Balance as at February 28, 2019	**$**	**11,124,391**

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 $1.08; expected life of 1.73 years; $nil dividends; 92% volatility; risk-free interest rate of 1.94%; foreign exchange rate of 0.7594; and the exercise price of $2.00. In fiscal 2018: 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.

(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, 2019 the Company issued 345,290,635 shares, of which 3,299,998 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		15,518,617
Share issuance – repayment of debt	10,092,583		9,386,102
Share issuance – warrants exercised	6,283,829		7,016,132
Balance as at February 28, 2019	**345,290,635**	**$**	**145,242,352**

In July 2018, the Company issued 10,092,583 common shares from treasury at a price of $0.93 per share to settle US$6,000,000 of outstanding payments to Thermo Energy Systems Inc., a third party vendor. Outstanding invoices to Thermo Energy Systems Inc. were in respect of ongoing retrofitting and construction services performed at the Company's Liberty 360 Innovation Campus. As a result of this settlement, the Company recognized a loss of $1,493,799 in the consolidated statements of loss and comprehensive loss.

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, including 3,333,375 of over allotment units exercised by the underwriters. 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. Cash issuance costs of $1,690,459 were paid in respect of this offering, and were allocated in a pro-rata manner between share capital ($1,261,803) and warrant reserve ($428,656).

The Company completed an offering in April 2017 issuing 54,727,532 subscription receipts at $0.624 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 broker warrants were issued with an exercise price of $0.624 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 11), and the remaining $15,200,000 in the form of cash.

(In Canadian dollars unless otherwise noted)

15. 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 year	25,555,875		1.10
Exercised during the year	(6,283,829)		0.89
Balance as at February 28, 2019	31,674,899	**$**	**1.36**

	Bought deal broker warrants	Weighted average exercise price	
Balance as at February 28, 2018	-	$	-
Issued during the year	1,533,352		0.90
Balance as at February 28, 2019	1,533,352	**$**	**0.90**

On May 10, 2018, the Company issued 25,555,875 common share purchase warrants as part of its bought deal offering (note 14). 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 $5,832,266 using the Black-Sholes 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 14). 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 and were allocated in a pro-rata manner between share capital and warrant reserve as a cost of issuance in the amounts of $387,662 and $131,695, respectively. As at February 28, 2019, these Broker Warrants remained outstanding.

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.

On July 20, 2017, the Company issued 2,995,192 broker warrants as part of the Offering (note 4). Each warrant is exercisable at $0.624 per share and expire in 2 years, the fair value of these warrants on the grant date was $769,410.

The warrant details (excluding broker warrants) of the Company are as follows:

Expiry date		Exercise price	Number of warrants	Vested and exercisable
July 21, 2019	$	0.62	192,307	192,307
May 10, 2020	$	1.10	22,074,931	22,074,931
February 15, 2021	$	2.07	9,407,661	9,407,661
Balance as at February 28, 2019			**31,674,899**	**31,674,899**

The weighted average remaining life of the outstanding warrants is 1.4 years as at February 28, 2019. 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.

(In Canadian dollars unless otherwise noted)

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 $6,505,465 and $2,440,895 during the year ended February 28, 2019 and period from May 1, 2017 to February 28, 2018, respectively.

	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 year	2,830,000	0.95
Forfeited during the year	(1,065,000)	0.97
Expired during the year	(239,832)	1.25
Balance as at February 28, 2019	11,525,000	**$ 1.36**

In January 2019, the Company issued 2,380,000 compensation options at the exercise price of $0.96 to employees and officers of the Company. All options expire January 2024 and vest over two years.

In July 2018, the Company issued 450,000 compensation options at the exercise price of $0.92 to employees and officers of the Company. All options expire July 2023 and vest over two years.

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

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.

(In Canadian dollars unless otherwise noted)

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	1,466,667
October 23, 2022	$ 1.07	353,333	227,500
December 4, 2022	$ 1.62	7,241,667	7,208,333
July 4, 2023	$ 0.92	450,000	250,000
January 24, 2024	$ 0.96	1,380,000	993,331
Balance as at February 28, 2019		**11,525,000**	**10,745,831**

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 certain members of the senior management group. Amounts paid to key management personnel and related parties were as follows:

	Year ended February 28, 2019	Period from May 1, 2017 to February 28, 2018
Employee and staff costs	**$ 755,788**	$ 469,499
Professional fees	**262,927**	-
Share-based compensation	**6,209,380**	2,227,914
Termination payments	**238,542**	-
Consulting fees	**12,412**	71,317
Interest on convertible note	**255,000**	73,357
Total	**$ 7,734,049**	$ 2,842,087

Employee and staff costs, professional fees, share-based compensation and termination payments were payments made in respect of employment agreements of directors and officers of the Company and family members related to them. Share-based compensation expense includes the impact of the accelerated vesting of stock options for certain directors and officers. Payments of interest on the Company's convertible note were made to certain directors and officers of the Company who were also noteholders during the fiscal year.

As at February 28, 2019, the Company had accounts payable of $627,180 and accounts receivable of $220,223 with a previous significant shareholder of the Company.

18. Income taxes

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is generally only allowed to deduct expenses directly related to the cost of producing the products or cost of production. This results in permanent differences between ordinary and necessary business expenses deemed unallowable under IRC Section 280E.

(In Canadian dollars unless otherwise noted)

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

	Year ended February 28, 2019	Period from May 1, 2017 to February 28, 2018
Net loss before income taxes	$ (21,246,929)	$ (28,467,675)
Less:		
Expected income tax expense	(5,630,435)	(7,543,934)
Tax rate changes and other adjustments	(186,460)	797
Non-deductible expenses	2,321,510	397,476
280(e) impact on non-COGS depreciation	-	116,879
Share issuance cost booked directly to equity	(574,738)	(789,193)
Change in fair value of derivative liability	(91,236)	(1,063,693)
Non-deductible transaction costs	-	5,379,773
IRC 280(e) deductions	3,334,925	554,626
US benefit of Canadian losses	(1,491,656)	-
Prior return adjustments	(545,114)	-
Change in tax benefits not recognized	3,910,090	3,325,100
Income tax expense	$ 1,046,886	$ 377,831

The Company's income tax is allocated as follows:

	February 28, 2019	February 28, 2018
Current income tax	$ -	$ -
Deferred income tax	1,046,886	337,831
Income tax expense	$ 1,046,886	$ 377,831

The following table summarizes the components of deferred tax:

	February 28, 2019	February 28, 2018
Deferred tax assets	$ -	$ 341,414
Loan receivable	118,838	-
Intangible assets	1,829,580	-
Non-capital losses carried forward – US	764,664	680,089
Non-capital losses carried forward – Canada	220,175	222
Deferred tax liabilities		
Capital assets	(1,228,487)	(505,618)
Intangible assets	-	(561,198)
Unconsolidated investments	34,365	-
Biological assets	(3,163,852)	(332,740)
Deferred tax liability, net	$ (1,424,717)	$ (377,831)

(In Canadian dollars unless otherwise noted)

Movement in deferred tax liabilities are as follows:

		February 28, 2019		February 28, 2018
Balance at the beginning of the year	**$**	**(377,831)**	$	-
Recognized in profit/loss		**(1,046,886)**		(377,831)
Recognized in equity		**-**		-
Balance at the end of the year	**$**	**(1,424,717)**	$	(377,831)

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, 2019		February 28, 2018
Intangible assets	**$**	**6,373,818**	$	517,221
Share issuance costs – 201(1)(e)		**3,521,910**		2,382,470
Promissory note		**2,999,122**		-
Unconsolidated investments		**-**		-
Non-capital loss carried forward – Canadian		**15,344,108**		9,502,410
Other differences		**207,585**		-
Total	**$**	**28,446,543**	$	12,402,101

As at February 28, 2019, the Company had the following loss carryforwards:

	Year		Amount	Expiration
Canadian non-capital loss carryforwards	2017	$	10,702,360	2037
Canadian non-capital loss carryforwards	2018	$	5,140,461	2038
US non-capital loss carryforwards	2017	$	2,429,630	No expiration
US non-capital loss carryforwards	2018	$	72,407	No expiration
Florida non-capital loss carryforwards	2017	$	2,429,630	No expiration
Florida non-capital loss carryforwards	2018	$	72,407	No expiration
Canadian capital loss carryforwards	2018	$	78,359	No expiration

19. Financial risk management and financial instruments

Financial instruments

The Company's financial instruments consist of cash and term deposits, investments, other receivables, 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 are Level 1. The hierarchy is summarized as follows:

(In Canadian dollars unless otherwise noted)

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, 2019
Financial assets				
Cash and term deposits	$ 13,291,426	$ -	$ -	**$ 13,291,426**
Investments	228,655	-	3,137,866	**3,366,521**
As at February 28, 2019	**$ 13,520,081**	**$ -**	**$ 3,137,866**	**$ 16,657,947**
Financial liabilities				
Embedded derivative	$ -	$ 2,586,646	$ -	**$ 2,586,646**
As at February 28, 2019	**$ -**	**$ 2,586,646**	**$ -**	**$ 2,586,646**

	Level 1	Level 2	Level 3	February 28, 2018
Financial assets				
Cash and term deposits	$ 26,415,379	$ -	$ -	**$ 26,145,379**
Investments	-	-	320,225	**320,225**
As at February 28, 2018	**$ 26,145,379**	**$ -**	**$ 320,225**	**$ 26,465,604**
Financial liabilities				
Embedded derivative	$ -	$ 2,930,932	$ -	**$ 2,930,932**
As at February 28, 2019	**$ -**	**$ 2,930,932**	**$ -**	**$ 2,930,932**

The following table presents the changes in level 3 items for the years ended February 28, 2018 and February 28, 2019:

	Unlisted equity securities
Balance as at April 30, 2017	$ -
Acquisitions	325,003
Effect of foreign exchange	(4,778)
Balance as at February 28, 2018	$ 320,225
Additions	1,146,300
Unrealized gain on fair value	1,661,695
Effect of foreign exchange	9,646
Balance as at February 28, 2019	**$ 3,137,866**

The Company's investments in unlisted equity securities are classified as Level 3 in the fair value hierarchy. Changes to the fair value of these securities are based on financings and other transactional data of the underlying companies. A 10% increase/decrease in the price per share of the Company's investments classified as Level 3 would increase/decrease the Company's change in fair value of investments by $313,787.

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$2,189,165, US$622,504, US$2,430,556, US$nil and US$12,000,000, respectively, as of February 28, 2019 (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 $8,463. The Company does not maintain any contract to hedge against any fluctuation on foreign exchange rate.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company has two types of financial assets that are subject to the ECL model which are its cash and term deposits, its other receivable and promissory note receivable. The maximum credit exposure at February 28, 2019 is the carrying amount of these items. The Company does not have significant credit risk with respect to customers. All cash is placed with locally established financial institutions. The company does have risk associated with the promissory note receivable. In accordance with this risk the company has recognized an impairment as of February 28, 2019 as shown in the financial statements.

(d) Liquidity risk

As at February 28, 2019, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year, and its convertible notes payable, which matures in November 2020. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

(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.

20. Contingent Liabilities

The Company has been served a summons in a class action lawsuit against the Company and certain of its former officers. These claims relate to alleged violations of federal securities laws. At this time, one class action claim originating in the United States has been served on the Company. The Company intends to vigorously defend itself in this action.

The Company is also the defendant in other legal actions arising out of the ordinary course and conduct of its business.

(In Canadian dollars unless otherwise noted)

As at February 28, 2019, the Company had not made any provision related to these contingencies.

21. Commitments

Minimum lease payments required under the Company's non-cancelable leases are as follows:

		Amount
2020	$	2,480,098
2021		2,651,011
2022		2,720,973
2023		2,772,094
2024		2,472,877
Thereafter		12,928,864
Total minimum lease payments	**$**	**26,025,917**

22. Reclassification of comparative figures

Certain prior year figures have been reclassified to conform with current year presentation. There was no impact to net loss and comprehensive loss, deficit or cash flows for the comparative period.

23. Subsequent events

On March 1, 2019 the Company issued 1,800,000 options to Directors of the Company with an exercise price of $1.09 per option, vesting over 2 years.

On May 3, 2019 the Company granted 650,000 options to certain employees of the Company with an exercise price of $0.79, vesting over 2 years.

On May 13, 2019, the Company granted 300,000 options to a certain employee of the Company with an exercise price of $0.79, vesting over 2 years.