FUTURE FARM TECHNOLOGIES

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED FEBRUARY 28, 2019 AND 2018**

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Future Farm Technologies Inc.

**Opinion**

We have audited the consolidated financial statements of Future Farm Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at February 28, 2019 and 2018, and the consolidated statements of loss, comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Basis for Opinion**

We conducted our audit 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 Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 to the financial statements, which indicates that the Company has incurred losses and negative operating cash flows since inception and the Company's ability to continue its operations is dependent on its ability to raise additional equity financing and to generate operational cash flow from product revenue. 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 the information included in Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Financial Statements**

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 David J. Goertz.

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP**
**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC

July 15, 2019

**FUTURE FARM TECHNOLOGIES INC.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

| | February 28 2019 | February 28 2018 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 69,397 | $ 236,233 |
| Accounts receivable and other (Note 4) | 748,669 | 505,346 |
| Inventory (Note 5) | 1,671,088 | 82,350 |
| Biological assets (Note 6) | 855,037 | 801,091 |
| Held-for-sale (Note 25) | - | 1,400,000 |
| **Total current assets** | 3,344,191 | 3,025,020 |
| Accounts receivable and other (Note 4) | 108,000 | - |
| Derivative asset (Note 7) | 276,549 | - |
| Property, plant and equipment (Note 8) | 4,115,155 | 4,430,914 |
| Investments in joint ventures (Note 9) | 1,409,947 | 1,088,022 |
| Intangible assets (Note 10) | 382,633 | 2,029,556 |
| Goodwill (Note 11) | 391,522 | 340,455 |
| **Total non-current assets** | 6,683,806 | 7,888,947 |
| **TOTAL ASSETS** | $ 10,027,997 | $ 10,913,967 |
| **LIABILITIES AND EQUITY** | | |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 12) | $ 1,955,832 | $ 1,422,918 |
| Finance leases (Note 13) | 119,327 | 85,337 |
| Loans and borrowings (Note 14) | 175,411 | 188,430 |
| Convertible debentures - loan (Note 15) | 1,686,670 | 1,112,632 |
| Convertible debentures - derivative (Note 15) | 2,053,920 | 4,572,953 |
| **Total current liabilities** | 5,991,160 | 7,382,270 |
| Finance leases (Note 13) | 138,027 | 84,620 |
| Loans and borrowings (Note 14) | - | 713,677 |
| **Total non-current liabilities** | 138,027 | 798,297 |
| **Total liabilities** | 6,129,187 | 8,180,567 |
| **EQUITY** | | |
| Share capital (Note 16) | 38,519,965 | 28,350,442 |
| Commitment to issue securities (Note 15) | 265,101 | 265,101 |
| Equity reserves | 9,157,521 | 6,106,627 |
| Accumulated other comprehensive income | 176,367 | 65,617 |
| Deficit | (44,176,931) | (32,304,857) |
| | 3,942,023 | 2,482,930 |
| Non-controlling interests (Note 17) | (43,213) | 250,470 |
| **Total equity** | 3,898,810 | 2,733,400 |
| **TOTAL LIABILITIES AND EQUITY** | $ 10,027,997 | $ 10,913,967 |

**Nature of operations and ability to continue as a going concern** (Note 1)
**Contingencies and commitments** (Note 22)
**Events after the reporting date** (Note 26)

These consolidated financial statements were authorized for issuance by the Board of Directors on July 15, 2019.

**Approved on behalf of the Board of Directors**

***"William Gildea"*** **, Director** ***"Craig Stanley"*** **, Director**

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

**FUTURE FARM TECHNOLOGIES INC.**
CONSOLIDATED STATEMENTS OF LOSS
(Expressed in Canadian Dollars)

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| Sales (Note 23) | $ 3,542,292 | $ 544,675 |
| Cost of goods sold | (2,848,261) | (445,233) |
| Unrealized gain from change in v alue of biological assets (Note 6) | 1,098,143 | 207,556 |
| **Gross profit** (Note 6) | 1,792,174 | 306,998 |
| Adv ertising, promotion and public relations | (507,858) | (1,024,514) |
| Amortization (Notes 8 & 10) | (311,338) | (83,966) |
| Bad debts (Note 4) | (1,333,411) | (84,210) |
| Consulting and management fees (Note 18) | (2,882,748) | (2,424,865) |
| Impairment of intangible asset (Note 10) | (1,458,216) | - |
| Impairment of land (Note 8) | - | (242,058) |
| Inv entory impairment (Note 5) | - | (19,458) |
| Office and miscellaneous | (1,406,670) | (398,977) |
| Professional fees (Note 18) | (1,622,426) | (1,867,198) |
| Project management (Note 18) | - | (690,769) |
| Rent and utilities (Note 18) | (81,844) | (75,717) |
| Share-based payments (Notes 16 & 18) | (5,245,503) | (8,971,114) |
| Swap fees and other (Note 18) | (804,416) | (280,000) |
| Transfer agent and filing fees | (111,930) | (63,144) |
| Trav el | (282,218) | (281,597) |
| Wages and benefits | - | (49,049) |
| **Loss from operations before other items** | (14,256,404) | (16,249,638) |
| | | |
| Loss from inv estment (Note 4) | (376,107) | - |
| Change in fair v alue of deriv ativ e assets (Note 7) | (375,216) | - |
| Equity loss from associated companies (Note 9) | (404,177) | - |
| Derecognition of inv estment in associated company (Note 9) | 2,160,571 | - |
| Accretion on finance leases (Note 13) | (42,345) | - |
| Finance charges on conv ertible debentures (Note 15) | (2,923,726) | (176,026) |
| Change in fair v alue of deriv ativ e liability (Note 15) | 6,272,646 | (3,065,741) |
| Adjustment to contingency prov ision (Note 22) | 143,920 | - |
| Interest and other | 366,465 | 40,408 |
| Foreign exchange gain (loss) | 18,616 | (71,373) |
| Net loss from continuing operations | (9,415,757) | (19,522,370) |
| Net loss from discontinued operations (Note 25) | - | (1,588,195) |
| **Net loss** | $ (9,415,757) | $ (21,110,565) |
| | | |
| **Net loss attributable to:** | | |
| Shareholders of the Company | $ (9,122,074) | $ (21,060,744) |
| Non-controlling interests | (293,683) | (49,821) |
| | $ (9,415,757) | $ (21,110,565) |
| | | |
| Basic and diluted earnings per share for continuing operations | $ (0.07) | $ (0.20) |
| Basic and diluted earnings per share for discontinued operations | $ (0.00) | $ (0.02) |
| | | |
| Weighted av erage number of shares outstanding - basic | 127,446,996 | 95,850,396 |
| Weighted av erage number of shares outstanding - diluted | 127,446,996 | 95,850,396 |

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

**FUTURE FARM TECHNOLOGIES INC.**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| **Net loss** | $ (9,415,757) | $ (21,110,565) |
| **Other comprehensive loss** | | |
| Items that may be reclassified subsequently to profit and loss: | | |
| Foreign currency translation adjustment | 110,750 | 65,617 |
| **Total comprehensive loss** | $ (9,305,007) | $ (21,044,948) |
| | | |
| **Total comprehensive loss attributable to:** | | |
| Shareholders of the Company | $ (9,011,324) | $ (20,995,127) |
| Non-controlling interests | (293,683) | (49,821) |
| | $ (9,305,007) | $ (21,044,948) |

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

**FUTURE FARM TECHNOLOGIES INC.**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars

| | Number of shares | Share capital | Commitment to issue shares and warrants | Equity Equity reserves | Accumulated OCI | Deficit | Non-controlling interests | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **Balance as at February 28, 2017** | 75,997,843 | $ 14,872,872 | $ 773,957 | $ 854,957 | $ - | $ (11,244,113) | $ 300,291 | $ 5,557,964 |
| Shares issued pursuant to license agreement | 5,000,000 | 1,150,000 | - | - | - | - | - | 1,150,000 |
| Units issued pursuant to consulting services | 250,000 | 107,500 | - | - | - | - | - | 107,500 |
| Private placements | 9,375,769 | 2,320,068 | (664,207) | - | - | - | - | 1,655,861 |
| Share issuance costs | - | (244,250) | - | - | - | - | - | (244,250) |
| Broker's warrants | - | (97,048) | - | 97,048 | - | - | - | - |
| Units issued as finders fees | 5,250,000 | 2,208,750 | (58,750) | - | - | - | - | 2,150,000 |
| Units issued for management fees | 1,500,000 | 51,000 | (51,000) | - | - | - | - | - |
| Exercise of stock options | 6,300,000 | 3,210,132 | - | (1,553,882) | - | - | - | 1,656,250 |
| Exercise of share purchase warrants | 5,912,321 | 2,053,670 | - | (112,610) | - | - | - | 1,941,060 |
| Shares issued for convertible notes | 2,000,000 | 2,577,748 | - | - | - | - | - | 2,577,748 |
| Shares issued on land acquisition | 250,000 | 140,000 | - | - | - | - | - | 140,000 |
| Share-based compensation | - | - | - | 6,821,114 | - | - | - | 6,821,114 |
| Commitment to issue warrants | - | - | 265,101 | - | - | - | - | 265,101 |
| Comprehensive loss for the year | - | - | - | - | 65,617 | (21,060,744) | (49,821) | (21,044,948) |
| **Balance as at February 28, 2018** | 111,835,933 | 28,350,442 | 265,101 | 6,106,627 | 65,617 | (32,304,857) | 250,470 | $ 2,733,400 |
| Shares issued pursuant to joint ventures | 483,871 | 150,000 | - | - | - | - | - | 150,000 |
| Shares issued for consulting services | 2,925,514 | 1,696,798 | - | - | - | - | - | 1,696,798 |
| Exercise of stock options | 1,572,000 | 852,930 | - | (393,929) | - | - | - | 459,001 |
| Exercise of share purchase warrants | 2,321,767 | 564,790 | - | (103,881) | - | - | - | 460,909 |
| Shares issued for convertible debentures | 26,122,619 | 6,905,005 | - | - | - | - | - | 6,905,005 |
| Share-based payments | - | - | - | 3,548,704 | - | - | - | 3,548,704 |
| Plan of arrangement with NexTech | - | - | - | - | - | (2,750,000) | - | (2,750,000) |
| Comprehensive loss for the year | - | - | - | - | 110,750 | (9,122,074) | (293,683) | (9,305,007) |
| **Balance as at February 28, 2019** | 145,261,704 | $ 38,519,965 | $ 265,101 | $ 9,157,521 | $ 176,367 | $ (44,176,931) | $ (43,213) | $ 3,898,810 |

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

**FUTURE FARM TECHNOLOGIES INC.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (9,415,757) | $ (21,110,565) |
| Items not affecting cash: | | |
| Amortization | 311,338 | 140,161 |
| Bad debts | 1,333,411 | 84,209 |
| Units issued for consulting services | - | 107,500 |
| Impairment of intangible asset | 1,458,216 | - |
| Impairment of inventory | - | 19,458 |
| Impairment of land | - | 242,058 |
| Share-based payments | 5,245,503 | 8,971,114 |
| Commitment to issue warrants | - | 265,101 |
| Distribution of NexTech shares to management | 500,000 | - |
| Loss from investment in BCWC | 376,107 | - |
| Change in fair value of derivative asset | 375,216 | - |
| Equity loss from associated companies | 404,177 | - |
| Derecognition of investment in associated company | (2,160,570) | - |
| Accretion on finance leases | 42,345 | - |
| Finance charges on convertible debentures | 2,924,593 | 105,859 |
| Change in fair value of convertible debenture - derivative | (6,272,646) | 3,065,741 |
| Interest expense | - | 108,882 |
| Adjustment to contingency provision | (143,920) | - |
| Impairment of prepaid expenses and goodwill | - | 1,470,887 |
| Unrealized gain from change in value of biological assets | (1,098,143) | (328) |
| Unrealized foreign exchange effect | 51,624 | - |
| Change in non-cash working capital items (Note 19) | (110,838) | 481,286 |
| **Net cash used in operating activities** | (6,179,344) | (6,048,637) |
| **Net cash provided by operating activities - discontinued operations** | - | 58,424 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of subsidiary company | - | (3,752,981) |
| Investment in BCWC | (1,701,860) | - |
| Acquisition of derivative asset | (647,029) | - |
| Acquisition of property, plant and equipment | (471,610) | (1,195,785) |
| Investments in associated companies and joint ventures | (265,532) | (1,088,022) |
| **Net cash used in investing activities** | (3,086,031) | (6,036,788) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from private placements | - | 1,655,861 |
| Share issue costs | - | (244,250) |
| Net proceeds from issuance of debt | 8,392,260 | 5,087,199 |
| Exercise of stock options and share purchase warrants | 919,910 | 3,597,310 |
| Issuance of loans receivable | - | (99,861) |
| Proceeds received from loan receivable | - | 33,494 |
| Proceeds from equipment lease facility | - | 199,593 |
| Repayment of equipment lease facility | - | (32,286) |
| Repayment of finance leases | (110,919) | - |
| Repayment of loan payable | (103,046) | (37,346) |
| **Net cash provided by financing activities** | 9,098,205 | 10,159,714 |
| Effect of exchange rate changes on cash | 334 | 12,905 |
| **Change in cash** | (166,836) | (1,854,382) |
| **Cash, beginning of year** | 236,233 | 2,090,615 |
| **Cash, end of year** | $ 69,397 | $ 236,233 |

**Supplemental disclosure with respect to cash flows** (Note 19)

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

(Expressed in Canadian Dollars)

## 1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

Future Farm Technologies Inc. (the "Company") was incorporated in the province of British Columbia, Canada on May 31, 1984. The Company is listed on the Canadian Securities Exchange (the "Exchange" or "CSE") under the symbol "FFT".

The Company's head office is located at 501 - 543 Granville Street, Vancouver, British Columbia, V6C 1X8. The Company is a Canadian company with interests in North America, including California, Massachusetts, Florida, Maine, Puerto Rico, Rhode Island, and Newfoundland. The Company's mission is to advance sustainable agriculture through indoor plant growth technology and through the production of wholesale and retail cannabis products, including hemp.

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities in the normal course of business. As of February 28, 2019, the Company has incurred losses and generated negative cash flows from operations and had working capital deficiency of $2,646,969 (2018 - $4,357,250). The Company's ability to continue as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary financing to continue operations, and ultimately the attainment of profitable operations. These factors indicate the existence of a material uncertainty that may cast significant doubt on the ability of the Company to continue as a going concern. These consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Reporting Interpretation Committee ("IFRIC") for all periods presented.

### Basis of consolidation

These consolidated financial statements include the financial statement of the Company and the entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions and balances have been eliminated.

*Subsidiaries*

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. The Company's principal operating subsidiaries and associated companies are as follows:

| Significant subsidiaries | Percentage ownership |
|---|---:|
| White Sand Nursery Inc. | 100% |
| FFM Consulting Services, LLC | 80% |
| Future Farm Maine, LLC | 80% |
| TerraCity Baltimore, LLC | 75% |

All intercompany balances and transactions were eliminated on consolidation.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Accounting standards adopted during the year**

*Revenue recognition*

Effective March 1, 2018, the Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 replaces all previous revenue recognition standards, including IAS 18 Revenue ("IAS 18"), and related interpretations. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company elected to apply IFRS 15 using a modified retrospective approach by recognizing the cumulative effect of initially adopting this standard at the date of initial recognition. Comparative information has not been restated and continues to be reported under IAS 18. The Company has concluded that there was no cumulative effect adjustment required to be recognized on adoption.

Under IFRS 15, revenue from the sale of LED lightings, ornamental plants, hemp related products, and cannabis-related products is recognized at a point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer, which is consistent with the Company's previous revenue recognition policy under IAS 18. The Company recognizes revenue in the amount that the Company expects to receive after taking into account any variation that may result from rights of return.

Provisions for warranties and product liability are recognized when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

*Financial instruments*

Effective March 1, 2018, the Company adopted IFRS 9 Financial Instruments ("IFRS 9") which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes significant changes to hedge accounting. The Company adopted the standard retrospectively without restatement.

IFRS 9 largely retains the previous requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables, and available-for-sale.

Under IFRS 9, on initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL.

Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated, and instead the hybrid financial instrument as a whole is assessed for classification. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (loss). This election is made on an investment-by-investment basis.

The classification determines the method by which the financial assets are carried on the consolidated statement of financial position subsequent to initial recognition and how changes in value are recorded. The following accounting policies apply to the subsequent measurement of financial assets:

Financial assets at FVTPL - These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

Financial assets at amortized cost - These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is adjusted for impairment losses, interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Accounting standards adopted during the year** (continued)

*Financial instruments* (continued)

Financial assets at FVOCI - These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Gains or losses recognized on the sale of the equity investment are recognized in other comprehensive income (loss) and are never reclassified to profit or loss.

All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Other financial liabilities are carried on the consolidated statement of financial position at amortized cost. The Company completed an assessment of its financial instruments. The following table shows the new classification under IFRS 9 and the original classification under IAS 39:

| | IAS 39 | IFRS 9 |
|---|---|---|
| **Financial assets** | | |
| Cash | FVTPL | Amortized costs |
| Trade and other receiv ables | Loans and receiv ables | Amortized costs |
| Deriv ativ e asset | FVTPL | FVTPL |
| **Financial liabilities** | | |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized costs |
| Loans and borrowings | Other financial liabilities | Amortized costs |
| Finance leases | Other financial liabilities | Amortized costs |
| Conv ertible debentures - loan | Other financial liabilities | Amortized costs |
| Conv ertible debentures - deriv ativ e | FVTPL | FVTPL |

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk. There was no adjustment relating to the implementation of the expected credit loss model for the Company's trade or settlement receivables.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

The Company has not designated any derivative contracts as hedges and therefore has not applied hedge accounting in these consolidated financial statements.

**Accounting pronouncements not yet effective**

The following standards and pronouncements have been issued by the IASB and have not yet been adopted by the Company. The Company is currently evaluating the impact the new and amended standards are expected to have on its consolidated financial statements.

IFRS 16 Leases was issued in January 2016 (effective March 1, 2019) and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company is continuing to assess the impact of this new standard on its financial position and financial performance.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Foreign currency translation**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's and its subsidiaries functional currency with the exception of FFT Holding and White Sand Nursery Inc. whose functional currency is the US dollar. Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

*Transactions and balances*

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

*Foreign operations*

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

**Loss per share**

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the periods presented, this calculation proved to be anti-dilutive and therefore basic loss per share equals diluted loss per share.

**Inventory**

Inventory consists of the LED lighting and supplies that are carried at the lower of cost or net realizable value. Supplies are carried at the lower of cost and replacement cost. Inventory of harvested hemp and hemp seeds are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Biological assets

The Company's biological assets consist of cannabis plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest on an average cost basis. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the statements of loss of the related reporting year.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated amortization and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Depreciation is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of property, plant and equipment are as follows:

| Class of property, plant and equipment | Amortization rate |
|---|---|
| Buildings | straight line ov er 20 to 50 years |
| Equipment | straight line ov er 5 years |
| Furniture and Fixtures | straight line ov er 5 years |

### Intangible assets and goodwill

Intangible assets are recognized and measured at cost. Intangible assets with finite useful lives are amortized using the straight-line method over the useful life of the asset. The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for intangible assets and any changes arising from the assessment are applied by the Company prospectively. The Company has determined that the intangible assets related to the license outlined in Note 10 have indefinite lives. Intangibles with finite lives consist of customer relationships and are amortized over three years.

Goodwill represents the excess of the value of the consideration transferred over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit to which it relates.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Impairment of non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If indicators exist, then the asset's recoverable amount is estimated. The recoverable amounts of the following types of intangible assets are measured annually, whether or not there is any indication that it may be impaired:

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use; and
- goodwill acquired in a business combination.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The Company's corporate assets generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

In respect of assets other than goodwill and intangible assets that have indefinite useful lives, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed in a subsequent period when there has been an increase in the recoverable amount of a previously impaired asset or CGU. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Investments in associated companies and joint ventures**

Associates are companies over which the Company has significant influence and are accounted for under the equity method. Significant influence is assumed when the Company has 20%-49% ownership interest, unless qualitative factors overcome this assumption. In assessing significant influence, potential voting rights that are currently exercisable are taken into account.

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance common shares and inclusive of transaction costs. For each acquisition of ownership interest within the investment in associate classification and prior to obtaining control, the difference between the cost of the incremental investment acquired and the investee's fair value of identifiable net assets is allocated to goodwill. The carrying amount of goodwill arising from the acquisition of associates and joint ventures is included in the carrying amount of the investments in associates and joint ventures.

The consolidated financial statements include the Company's share of the income and expenses and equity movement of equity accounted investees. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. Where the investee's reporting period differs from the Company's, the investee prepares financial information as of the same period end as the Company, unless it is impracticable to do so. Otherwise, the Company will adjust for its share of income and expenses and equity movement based on the investee's most recently completed financial statements, adjusted for the effects of significant transactions. The Company does not recognize losses exceeding the carrying value of its interest in the associate or joint venture. The carrying value is assessed for impairment at each reporting date.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Share capital**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in private placements was determined to be the more easily measurable component and the shares were valued at the full unit value. Transaction costs on the issuance of equity instruments for cash are recognized as a deduction from equity.

**Cost of goods sold**

Cost of sales for LED lighting and fixture includes the expenses incurred to acquire and produce inventory for sale, including product costs, freight costs, as well as provisions for reserves related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

Cost of sales of plants consists of the deemed cost that is fair value less cost-to-sell assessed at the point where the plants are mature and ready to sale, costs to ship products, as well as provision for reserves related to product shrinkage, excess or obsolete inventory, or lower of cost and net realizable value adjustments as required.

**Income taxes**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Share-based payments**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized on a graded basis over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment using the Black-Scholes option pricing model. Otherwise, share-based payments are measured at the fair value of goods and services received.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued plus any liabilities incurred to the former owner. Assets acquired and liabilities assumed (including assets and liabilities of the acquiree not previously recognized) in the business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any minority interest.

Goodwill is initially measured at cost being the excess of the purchase consideration of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets and liabilities. If the costs of the acquisition are less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

**Non-controlling interests**

Non-controlling interests in the Company's less than wholly-owned subsidiaries are classified as a separate component of equity. On initial recognition, non-controlling interests are measured at their proportionate share of the acquisition date fair value of identifiable net assets acquired by the Company.

Subsequent to the acquisition date, adjustments are made to the carrying amount of non-controlling interests for the non-controlling interests' share of changes to the subsidiary's equity. Adjustments to recognize the non-controlling interests' share of changes to the subsidiary's equity are made even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are recorded as equity transactions. The carrying amount of non-controlling interests is adjusted to reflect the change in the non-controlling interests' relative interests in the subsidiary and the difference between the adjustment to the carrying amount of non-controlling interests and the Company's share of proceeds received and/or consideration paid is recognized directly in equity and attributed to shareholders of the Company.

**Estimates, judgements and assumptions**

The preparation of the Company's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates. The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

*Business combinations*

The determination of whether a set of assets acquired and liabilities assumed constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits.

*Functional currency*

The determination of the functional currency often requires significant judgment where the primary economic environment in which an entity operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

*Allowance for doubtful accounts*

The Company makes allowance for doubtful accounts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Management specifically analyzed historical bad debts, customer concentrations, customer creditworthiness, current economic trends, and changes in customer payment terms when applying a judgment to evaluate the adequacy of the allowance for doubtful accounts. Where the expectation is different from the original estimate, such difference will impact the carrying value of receivables.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Estimates, judgements and assumptions** (continued)

*Inventory*

The Company estimates the net realizable values of inventory, taking into account the most reliable evidence available at each reporting date. In calculating final inventory values of plants, the Company is required to determine an estimate of spoiled or expired inventory and compares the inventory cost to estimated net realizable value. The future realization of the LED lighting inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

*Biological assets*

In calculating the value of the biological assets, the Company is required to make a number of estimates including estimating the stage of growth of the plants up to the point of being ready for sale, production costs, selling costs, sale price, wastage and duration of production cycle.

*Valuation and economic recoverability of intangible assets and goodwill*

Management has determined that intangible asset costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including anticipated cash flows and estimated economic life. Indefinite lived intangible assets and goodwill are tested annually for impairment. The assessment of the recoverable amount used in the intangible asset and goodwill impairment analysis requires management to make estimates and assumptions about expected sales volumes and prices, for which management considers historical prices and current market trends, as well as considering the Company's current projects, their expected output, costs and timing. These estimates and assumptions are subject to risk and uncertainty; hence there is a possibility that a change in circumstances will alter these projections, which may impact the recoverable amount of the assets.

*Valuation of share-based payments*

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rates and forfeiture rates. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

*Deferred income tax*

The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax loss carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.

*Control or level of influence*

When determining the appropriate basis of accounting for the Company's interests in affiliates, the Company makes judgments about the degree of influence that it exerts directly or through an arrangement over the investees' relevant activities. Information about these judgments is included in Note 9.

(Expressed in Canadian Dollars)

## 3. ACQUISITON OF WHITE SAND NURSERY INC.

In January 2018, the Company acquired a 100% interest in White Sand Nursery Inc. ("White Sand"), land, and greenhouses for $3,752,981 or US$3,000,000. At the time of the acquisition, the Company determined that White Sand constituted a business as defined under IFRS 3, Business Combinations, and accounted for it as such on the date that control was acquired. The Company has recognized the identifiable assets and liabilities acquired at their estimated acquisition date fair values. The purchase price allocation ("PPA") is as follows:

| | | Amounts |
|---|---|---|
| **Considerations paid** | | |
| Cash (US$3,000,000) | $ | 3,752,981 |
| | | |
| **Identifiable assets less liabilities** | | |
| Accounts receivable and other | $ | 142,538 |
| Biological assets (Note 6) | | 536,597 |
| Land | | 550,887 |
| Buildings | | 1,671,441 |
| Intangible assets - customer relationships (Note 10) | | 585,943 |
| Goodwill (Note 11) | | 340,455 |
| Accounts payable and accrued liabilities | | (74,880) |
| | $ | 3,752,981 |

The Company estimated the fair value of White Sand's customer relationships based on an excess earnings cash flow model using a discount rate of 17% per annum. Furthermore, the excess of the consideration paid over the fair value of the identifiable assets (liabilities) acquired were recognized as goodwill, which primarily consisted of the assembled workforce.

## 4. ACCOUNTS RECEIVABLES AND OTHER

| | | February 28 2019 | | February 28 2018 |
|---|---|---|---|---|
| Trade receivables | $ | 625,381 | $ | 415,719 |
| GST recoverable | | 56,807 | | 16,131 |
| Advances and note receivable | | 1,433,753 | | - |
| Allowance for doubtful accounts | | (1,325,753) | | (84,210) |
| Prepaid expenses and deposits | | 66,481 | | 157,706 |
| Ending balance | | 856,669 | | 505,346 |
| **Less: current portion** | | (748,669) | | (505,346) |
| **Long term portion** | $ | 108,000 | $ | - |

During the year ended February 28, 2019, the Company advanced $108,000 (2018 - $Nil) to an associated company payable by June 2020.

In March 2018, the Company entered into a convertible promissory note agreement with BCWC, LLC ("BCWC") for US$5,003,100 with scheduled advances over a six-month period. As at February 28, 2019, the Company has been deemed to be in default due to three missed scheduled advances. As a result, BCWC is entitled to retain the initial advance and the remaining advance is considered to be a loan from the Company to BCWC. During the year ended February 28, 2019, a total of $1,701,860 or US$1,325,000 has been advanced to BCWC and the Company recognized a loss equal to the initial advance of $376,107 or US$325,000 and an allowance for the remaining receivable of $1,325,753 or US$1,000,000. BCWC exercised its right to extend the maturity date from May 2019 to November 2019, which increased the interest rate by 1% per annum.

(Expressed in Canadian Dollars)

## 4. ACCOUNTS RECEIVABLES AND OTHER (continued)

During the year ended February 28, 2018, the Company entered into an unsecured promissory note agreement of $99,861 or US$75,000, which was non-interest bearing and due on July 31, 2017. During the year ended February 28, 2018, the Company received repayment of $33,494 or US$26,283 and settled the remainder against an outstanding accounts payable balance.

## 5. INVENTORY

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Hemp seeds and biomass | $ 1,524,648 | $ - |
| LED finished goods | 52,565 | 82,350 |
| Supplies | 93,875 | - |
| | $ 1,671,088 | $ 82,350 |

For the year ended February 28, 2019, the Company recorded an inventory impairment of $Nil (2018 - $19,458).

## 6. BIOLOGICAL ASSETS

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Opening balance | $ 801,091 | $ - |
| Assets purchased and production costs incurred | 3,297,588 | 787,401 |
| Costs attributed to the sale of biological assets | (2,817,137) | (193,866) |
| Changes in fair value less costs to sell | 1,098,143 | 207,556 |
| Transfer to inventories upon harvest | (1,524,648) | - |
| **Ending balance** | $ 855,037 | $ 801,091 |

The fair value of biological assets is categorized within Level 3 on the fair value hierarchy. The inputs and assumptions used in determining the fair value of biological assets include:

a) wastage of plants based on their various stages of biological transformation;
b) duration of the production cycle;
c) percentage of costs incurred at various stages of the biological transformation compared to the total costs are used to estimate the fair value of each type of biological asset; and
d) fair value less cost to sell at the point when ready to sell.

Significant unobservable assumptions used in the valuation of biological assets included selling price and shrinkage, where a 10% change in each input would have on the following impact on the fair value of biological assets:

| | Weighted average key inputs | Effect of a 10% change |
|---|---|---|
| Selling price | $ 0.95 | $ 130,490 |
| Shrinkage | 15% | $ 19,574 |

The Company estimates the production cycle for the ornamental plants at various stages of growth. As of the reporting date, it is expected that the Company's ornamental plants will take approximately 10 to 12 weeks to grow. The Company's hemp related biological assets will approximately 20 to 22 weeks to grow. The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

The Company's ornamental plants are sold to wholesale customers as immature plants. Because they are sold prior to being harvested, they remain biological assets while owned by the Company. As of February 28, 2019, the biological assets in Florida were on average 50% through the growing time needed to be sold. The Company's biological assets in Maine are harvested into hemp biomass and hemp seeds. Upon harvest, they are transferred into inventory. During the year ended February 28, 2019, the Company's Maine biological assets produced approximately 16,500 pounds of dried hemp biomass and 1,450,000 hemp seeds.

(Expressed in Canadian Dollars)

**6. BIOLOGICAL ASSETS** (continued)

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| Revenue | $ 3,542,292 | $ 544,675 |
| Cost of goods sold | (2,382,873) | (445,233) |
| **Gross profit, excluding fair value items** | 1,159,419 | 99,442 |
| Realized fair value amounts included in inventory sold | (465,388) | - |
| Unrealized gain from change in value of biological assets | 1,098,143 | 207,556 |
| **Gross profit** | $ 1,792,174 | $ 306,998 |

**7. DERIVATIVE ASSET**

In May 2018, the Company acquired an ownership interest in YLK Partners NV ("YLK Partners") for $647,029 or US$500,000. YLK Partners held a contract to manage a licensed medical marijuana cultivation and processing facility being developed in Arizona. In May 2018, the Company sold its interest in YLK Partners to Solis Tek, Inc. ("Solis Tek") in exchange for 500,000 share purchase warrants of Solis Tek exercisable at $0.01 per share for 5 years. As at February 28, 2019, the closing price of Generation Alpha, Inc. (formerly "Solis Tek") common shares was US$0.42 per share, resulting in a carrying amount of $276,549 for the Company's investment and a decline in fair value of $375,216 net of a foreign exchange effect of $4,736.

**8. PROPERTY, PLANT AND EQUIPMENT**

| | Land | Buildings | Equipment | Furniture and fixtures | Total |
|---|---|---|---|---|---|
| **Costs** | | | | | |
| As at February 28, 2017 | $ 1,015,547 | $ - | $ - | $ - | $ 1,015,547 |
| Additions | 924,490 | 2,473,403 | 249,834 | - | 3,647,727 |
| Impairment | (242,058) | - | - | - | (242,058) |
| Currency translation adjustments | 11,895 | 36,091 | 13,203 | - | 61,189 |
| As at February 28, 2018 | 1,709,874 | 2,509,494 | 263,037 | - | 4,482,405 |
| Additions | - | 97,811 | 428,394 | 93,730 | 619,935 |
| Disposals | (773,489) | - | - | - | (773,489) |
| As at February 28, 2019 | $ 936,385 | $ 2,607,305 | $ 691,431 | $ 93,730 | $ 4,328,851 |
| **Accumulated amortization** | | | | | |
| As at February 28, 2017 | $ - | $ - | $ - | $ - | $ - |
| Amortization | - | 9,310 | 39,044 | - | 48,354 |
| Currency translation adjustments | - | - | 3,137 | - | 3,137 |
| As at February 28, 2018 | - | 9,310 | 42,181 | - | 51,491 |
| Amortization | - | 57,392 | 86,431 | 18,383 | 162,206 |
| As at February 28, 2019 | $ - | $ 66,702 | $ 128,612 | $ 18,383 | $ 213,697 |
| **Net book value** | | | | | |
| As at February 28, 2018 | $ 1,709,874 | $ 2,500,184 | $ 220,856 | $ - | $ 4,430,914 |
| As at February 28, 2019 | $ 936,385 | $ 2,540,603 | $ 562,819 | $ 75,348 | $ 4,115,155 |

As at February 28, 2019, the Company has assets with net book value of $281,118 held under finance leases (Note 13). Title to these assets is held by the lessor.

In March 2018, the Company exercised its put option to sell back three parcels land in Florida to the vendor (Note 14) with a carrying amount of $773,489. As at February 28, 2018, the Company recognized an impairment charge of $242,058 on the carrying amount of the land down to the value of the mortgage payable.

In December 2017, the Company acquired a 120-acre industrial hemp farm in Amity, Maine for $103,046 or US$80,000 payable in equal installments over the course of six months (Note 14) and 250,000 common shares of the Company (Note 16).

(Expressed in Canadian Dollars)

## 9. INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT ARRANGEMENTS

| | CEPG | NexTech | FFPR | Total |
|---|---|---|---|---|
| As at February 28, 2017 | $ - | $ - | $ - | $ - |
| Acquisition of FFPR | - | - | 1,088,022 | 1,088,022 |
| As at February 28, 2018 | - | - | 1,088,022 | 1,088,022 |
| Acquisition of CEPG | 271,780 | - | - | 271,780 |
| Deconsolidation of NexTech | - | 1,400,000 | - | 1,400,000 |
| Additions to FFPR | - | - | 143,751 | 143,751 |
| Loss attributable to the Company | (8,545) | (310,571) | (85,061) | (404,177) |
| Derecognition of NexTech | - | (1,089,429) | - | (1,089,429) |
| As at February 28, 2019 | $ 263,235 | $ - | $ 1,146,712 | $ 1,409,947 |

**CEPG Consulting and Design Inc.**

In August 2018, the Company acquired a 50% interest in CEPG Consulting and Design Inc. ("CEPG"), a Canadian corporation located in St. John's, Newfoundland for $121,780 and 483,871 commons shares, with a fair value of $150,000 (Note 15). The Company has the ability to appoint two of the four directors to the board of CEPG and shares joint control of financial and operating decisions.

**NexTech AR Solutions Corp.**

In May 2018, the Company sold its app portfolio and augmented reality licensing agreement (Note 10) to NexTech AR Solutions Corp. ("NexTech")(Note 25), a related party by way of common director (Note 17), for 13,000,000 common shares of NexTech, valued at $1,400,000 (Note 25). As a result of the sales transactions, the Company held a 35% interest in NexTech.

In September 2018, the Company entered into a plan of arrangement where the shareholders received 11,000,000 common shares of NexTech, with a fair value of $2,750,000. The Company distributed the remaining 2,000,000 common shares of NexTech, valued at $500,000, to management of the Company (Note 18). As a result, the Company derecognized the related investment in an associated company and recognized a gain of $2,160,571.

**FFPR, LLC**

In February 2018, the Company acquired a 40% interest in FFPR, LLC ("FFPR"), a Puerto Rican company, for $1,088,022 or US$865,000 from TCG Investments, LLC and an individual (collectively, "TCG"). TCG has committed to contribute their five pre-qualifications for medical dispensary licenses into FFPR. The Company owns 40% of the share capital but has 50% economic interest in profits and losses of FFPR. The Company has the ability to appoint two of the four directors to the board of FFPR; furthermore, there must be a majority of 50.1% voting in favor of any resolution which will require a super majority vote of at least three of the four members to pass a resolution. Therefore, the Company shares joint control of decisions.

Summarized aggregate financial information of the associated companies and joint ventures is as follow:

| For the year ended February 28, 2019 | CEPG | NexTech | FFPR |
|---|---|---|---|
| Current assets | $ 198,332 | $ - | $ 16,593 |
| Non-current assets | 24,494 | - | 117,513 |
| Liabilities | (130,967) | - | (9,721) |
| Revenue | 53,782 | - | - |
| Loss for the year | (17,089) | (896,781) | (170,124) |
| The Company's ownership/interest % | 50% | - | 50% |
| The Company's share of loss for the year | $ (8,545) | $ (310,571) | $ (85,061) |

For the year ended February 28, 2018, there was only FFPR, whose net assets consisted entirely of the licenses and no income or expenses for year then ended.

(Expressed in Canadian Dollars)

## 10. INTANGIBLE ASSETS

| | Customer relationship | Licensed rights | App portfolio and license | Total |
|---|---|---|---|---|
| **Costs** | | | | |
| As at February 28, 2017 | $ - | $ 1,458,216 | $ 119,000 | $ 1,577,216 |
| Additions | 585,943 | - | 1,150,000 | 1,735,943 |
| Reclassified to held-for-sale (Note 23) | - | - | (1,269,000) | (1,269,000) |
| As at February 28, 2018 | 585,943 | 1,458,216 | - | 2,044,159 |
| Impairment | - | (1,458,216) | - | (1,458,216) |
| Currency translation adjustments | 10,825 | - | - | 10,825 |
| As at February 28, 2019 | $ 596,768 | $ - | $ - | $ 596,768 |
| **Accumulated amortization** | | | | |
| As at February 28, 2017 | $ - | $ - | $ - | $ - |
| Amortization | 14,603 | - | 56,194 | 70,797 |
| Reclassified to held-for-sale (Note 23) | - | - | (56,194) | (56,194) |
| As at February 28, 2018 | 14,603 | - | - | 14,603 |
| Amortization | 199,532 | - | - | 199,532 |
| As at February 28, 2019 | $ 214,135 | $ - | $ - | $ 214,135 |
| **Net book value** | | | | |
| As at February 28, 2018 | $ 571,340 | $ 1,458,216 | $ - | $ 2,029,556 |
| As at February 28, 2019 | $ 382,633 | $ - | $ - | $ 382,633 |

**Customer relationship**

In January 2018, the Company acquired a 100% interest in White Sand, which included a customer relationship with a fair value of $585,943 (Note 3).

**Licensed rights**

In May 2016, the Company acquired a 75% interest in TerraCity Baltimore, LLC ("TerraCity") from TerraSphere Systems, LLC ("TerraSphere") for 16,474,238 common shares, with a fair value of $906,083 and incurred related acquisition costs of $15,811. The identifiable assets acquired included licensed worldwide rights for TerraSphere's proprietary system for growing plants in controlled agriculture facilities, which had an estimated fair value of $1,458,216 on the acquisition date. The remaining 25% interest continued to be held by CBO Financial, Inc. ("CBO"). By way of common directors, TerraSphere and CBO are related parties to the Company. During the year ended February 28, 2019, management determined that there existed significant uncertainty as to whether the Company would derive future positive cash flows from this asset; therefore, the Company recognized an impairment charge of $1,458,216.

**App portfolio and license**

In October 2017, the Company entered into a license agreement with AR E1 LLC to acquire exclusive right to use its patented technology by issuing 5,000,000 common shares, valued at $1,150,000. In March 2018, the Company sold both the App Portfolio and license agreement with AR E1 LLC to NexTech for 13,000,000 common shares of NexTech. As at February 28, 2018, the related assets and liabilities were reclassified as held-for-sale and classified as current (Note 25).

(Expressed in Canadian Dollars)

## 11. GOODWILL

In January 2018, the Company acquired a 100% interest in White Sand, which included goodwill, valued at $340,455, at the time of the acquisition (Note 3). During the year ended February 28, 2019, the Company recognized a currency translation adjustment of $51,067 (2018 - $Nil). The Company estimated the recoverable amount based on the value-in-use method which was higher than the carrying value at February 28, 2019. The key assumptions used in the calculation of the recoverable amount include sales growth per year, changes in cost of sales and capital expenditures based on internal forecasts. Cash flows were projected out 5 years and a terminal value was calculated using a long-term steady growth rate of 2%. The discount rate of 17% was calculated to reflect the risk-free rate and illiquidity of the asset. The Company believes that a slight change in the key assumptions would not cause the recoverable amount to decrease below the carrying value.

## 12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Trade payables | $ 1,311,763 | $ 704,416 |
| Accrued liabilities | 111,080 | 351,032 |
| Due to related parties (Note 18) | 532,989 | 367,470 |
| | $ 1,955,832 | $ 1,422,918 |

## 13. FINANCE LEASES

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Opening balance | $ 169,957 | $ - |
| Additions | 148,326 | 199,593 |
| Accretion expense | 42,345 | - |
| Lease payments | (110,919) | (35,544) |
| Currency translation adjustments | 7,645 | 5,908 |
| Ending balance | 257,354 | 169,957 |
| **Less: current portion** | 119,327 | 85,337 |
| **Long term portion** | $ 138,027 | $ 84,620 |

In August 2017, the Company entered into a Master Lease Agreement (the "Master Lease") with Veterans Capital Corp. for an equipment lease facility of up to $629,525 or US$500,000, which will be secured by the Company's extraction equipment and lab processing equipment. The term of the facility is three years from each delivery and has a monthly lease rental payment based on a monthly lease rate factor of 3.4718% of the capital cost. The Company has the option to purchase all but not less than all of the equipment under the Master Lease for the fair market value at the time of exercise, which shall not exceed 20% of the capital costs. Pursuant to the Master Lease, the Company paid a one-time commitment fee of $10,069 or US$8,000 and issued 1,250,000 share purchase warrants exercisable at $0.20 per share for five years, valued at $166,064. As it was uncertain that the Company will execute the full facility, the commitment fee and the fair value of share purchase warrants were expensed during the year ended February 28, 2018.

As at February 28, 2019, the Company had two arrangements under the Master Lease:

a) in August 2017, the Company entered into a lease arrangement for certain equipment with an initial fair value of $199,593 or US$160,929. The lease terms included implicit rate of 14% and monthly payments of US$5,500 for three years; and
b) in September 2018, the Company entered into a lease arrangement for certain equipment with an initial fair value of $148,326 or US$114,040. The lease terms included implicit rate of 17% and monthly payments of US$4,129 for three years.

(Expressed in Canadian Dollars)

## 13. FINANCE LEASES (continued)

Future minimum lease payments as at February 28, 2019 and 2018 are as follows:

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Not later than one year | $ 152,122 | $ 84,620 |
| Later than one year and not later than fiv e years | 153,964 | 109,093 |
| **Total minimum lease payments** | 306,086 | 193,713 |
| Future finance charges at implicit rate | (48,732) | (23,756) |
| **Balance of unpaid obligations** | $ 257,354 | $ 169,957 |

## 14. LOANS AND BORROWING

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Opening balance | $ 902,107 | $ 832,714 |
| Additions | 148,963 | 103,046 |
| Interest expense | 867 | - |
| Repayments | (103,046) | (32,286) |
| Exercised option to return land | (773,489) | - |
| Currency translation adjustments | 9 | (1,367) |
| Ending balance | 175,411 | 902,107 |
| **Less: current portion** | 175,411 | 188,430 |
| **Long term portion** | $ - | $ 713,677 |

In November 2017, the Company entered into a promissory note of $101,737 or US$80,000 with an interest rate of 6% per annum for six months. Interest accrued on the loan was $1,309 or US$1,035. The promissory note was secured by certain mortgage deeds of the Company. In accordance with the loan repayment schedule, the Company made six monthly payments of US$13,333 commencing in December 2017, with the remaining principal balance and accrued interest repaid in full during the year ended February 28, 2019.

During the year ended February 28, 2019, the Company entered into a number of promissory note agreements with a third-party for aggregate amount of $148,963 or US$112,030 carrying interest of 2.57% per annum and payable on January 31, 2020.

In December 2014, the Company entered into a loan agreement with Abattis Bioceuticals Corp. for $131,482 or US$100,000 with an interest rate of 0% per annum for sixty days and an arrangement fee of US$20,000. As at February 28, 2019, the Company repaid the principal balance in full, but the $25,581 or US$20,000 arrangement fee payment remained outstanding and currently in default. Subsequent to year end, the Company settled the arrangement fee in April 2019 on a payment plan through October 2019.

In February 2017, the Company acquired three parcels of land in Florida, which included the assumption of the outstanding mortgages of $851,885, on these parcels of land at the time of acquisition. The mortgages bore interest at 4.5% per annum and have maturity dates through to May 2, 2029. The purchase agreement also granted the following options: (a) if at any time up to five years from the acquisition date (the "Expiration Date"), the Company has been unable to obtain a Florida State license to cultivate cannabis it has the right to return the land parcels to the vendor, who will agree to an assumption of the existing mortgages on which the principal and accrued interest outstanding is not to exceed the total amount as of the date of acquisition and the Company will have no further obligation or payment due; or (b) if the Company is unable to obtain a Florida State license to cultivate cannabis, the vendor will have 180 days from the Expiration Date, within which to exercise the option to retake ownership of the property and assume the existing mortgages, on which the principal and accrued interest outstanding is not to exceed US$850,000. In March 2018, the Company exercised its option to return the land parcels (Note 8) and for the vendor to assume the existing mortgages.

## 15. CONVERTIBLE DEBENTURES

| For the year ended February 28, 2019 | Loan | Derivative | **Total** |
|---|---|---|---|
| Opening balance | $ 1,178,265 | $ 4,572,953 | $ 5,751,218 |
| Additions | 1,736,505 | 6,506,792 | 8,243,297 |
| Finance charges | 2,923,726 | - | 2,923,726 |
| Fair value adjustment on derivative component | - | (6,272,646) | (6,272,646) |
| Conversion to common shares | (4,151,826) | (2,753,179) | (6,905,005) |
| **Ending balance** | $ 1,686,670 | $ 2,053,920 | $ 3,740,590 |

| For the year ended February 28, 2018 | Loan | Derivative | **Total** |
|---|---|---|---|
| Opening balance | $ - | $ - | $ - |
| Additions | 1,007,506 | 4,079,693 | 5,087,199 |
| Finance charges | 176,026 | - | 176,026 |
| Fair value adjustment on derivative component | - | 3,065,741 | 3,065,741 |
| Conversion to common shares | (5,267) | (2,572,481) | (2,577,748) |
| **Ending balance** | $ 1,178,265 | $ 4,572,953 | $ 5,751,218 |

As at February 28, 2019 and 2018, all of the Company's outstanding convertible debentures were denominated in US dollars and is convertible into a variable number of the Company's common shares which are listed in Canadian dollars. As a result, the conversion feature is considered to be a derivative liability.

In connection to the Company's outstanding convertible debentures, in the month immediately preceding the settlement date, if the proceeds received from sale of the common shares of the Company from the conversion of the debentures or exercise of the share purchase warrants ("Proceeds") is less than 117% of the conversion price times the number of conversion shares sold by the holder ("Base Proceeds"), the Company will pay the holder the difference between the Proceeds and Base Proceeds. If the Proceeds are greater than the Base Proceeds, the holder will pay the Company 50% of the difference between the Proceeds and Base Proceeds. As at February 28, 2019, the Company accrued $363,443 (2018 - $Nil) of fees receivable from the holder.

**Debenture 6**

In November 2018, the Company completed a secured convertible debenture offering of US$1,340,000 ("Debenture 6"). Debenture 6 matures in twelve months bearing interest at 8% per annum payable at maturity and is convertible into common shares of the Company at the option of the holder at $0.255 per share. In addition, the Company issued 3,200,000 share purchase warrants to the holder and incurred financing costs of $79,405 or US$60,200.

For the year ended February 28, 2019, the holder elected to convert $535,500 (2018 - $Nil) or US$403,981 (2018 - US$Nil) of the outstanding balance into 2,100,000 (2018 - Nil) common shares of the Company (Note 16). As at February 28, 2019, the Company had outstanding principal and accrued interest balances of US$937,193 and US$23,420, (2018 - US$Nil and US$Nil) respectively.

**Debenture 5 (formerly Debenture 2)**

In December 2017, the Company completed a secured convertible debenture offering of US$1,660,000 ("Debenture 2"). Debenture 2 was to mature in eighteen months bearing interest at 8% per annum payable at maturity and convertible into common shares of the Company at the option of the holder at $0.60 per share. In addition, the Company incurred financing costs of $105,000 and issued 1,459,212 share purchase warrants to the holder.

In November 2018, the Company and the holder agreed to refinance the outstanding balance of Debenture 2 (being US$1,777,155, including accrued and unpaid interest) ("Debenture 5"). Effective on the amendment date, Debenture 5 matures in twelve months bearing interest at 8% per annum payable at maturity and is convertible into common shares of the Company at the option of the holder at $0.255 per share. As at February 28, 2019, the Company had outstanding principal and accrued interest balances of US$1,777,155 and US$43,236, (2018 - US$Nil and US$Nil), respectively.

## 15. CONVERTIBLE DEBENTURES (continued)

### Debenture 4 (formerly Debenture 3)

In March 2018, the Company completed a secured convertible debenture offering of US$4,000,000 ("Debenture 3"). Debenture 3 was to mature in eighteen months bearing interest at 8% per annum payable at maturity and convertible into common shares of the Company at the option of the holder at $0.58 per share. In addition, the Company issued 7,421,150 share purchase warrants to the holder and incurred financing costs of $180,752 or US$140,000.

Prior to the refinancing in August 2018, the holder elected to convert $1,164,072 or US$903,292 of the outstanding balance into 2,000,000 common shares of the Company (Note 16).

In August 2018, the Company and the holder agreed to refinance the outstanding balance of Debenture 3 (being US$3,202,423, including accrued and unpaid interest), while adding an additional US$1,000,000 to the aggregate refinancing amount ("Debenture 4"). Effective on the amendment date, Debenture 4 matures in twelve months bearing interest at 8% per annum payable at maturity and is convertible into common shares of the Company at the option of the holder at $0.20 per share. In addition, the Company incurred financing costs of $65,150 or US$50,000, issued 13,000,000 share purchase warrants to the holder, and cancelled the 7,421,150 share purchase warrants originally issued in March 2018. The replacement share purchase warrants are exercisable at $0.24 per share for three years.

For the year ended February 28, 2019, the holder elected to convert $2,764,982 (2018 - $Nil) or US$2,096,373 (2018 - US$Nil) of the outstanding balance into 13,824,908 (2018 - Nil) common shares of the Company (Note 16). As at February 28, 2019, the Company had outstanding principal and accrued interest balances of US$2,250,000 and US$13,808, (2018 - US$Nil and US$Nil) respectively.

### Debenture 1

In December 2017, the Company completed a secured convertible debenture offering of US$2,340,000 ("Debenture 1"). Debenture 1 was to mature in eighteen months bearing interest at 8% per annum payable at maturity and convertible into common shares of the Company at the option of the holder at $0.30 per share. In connection, the Company incurred financing costs of $105,000 and issued 5,000,000 share purchase warrants to the holder. The Company has committed to issue 356,104 share purchase warrants, valued at $265,101, as finders' fee. For the year ended February 28, 2019, the holder elected to convert $2,459,313 (2018 - $600,000) or US$1,924,905 (2018 - US$476,600) of the outstanding balance into 8,197,711 (2018 - 2,000,000) common shares of the Company (Note 16).

## 16. SHARE CAPITAL

### Authorized

As at February 28, 2019, the authorized share capital of the Company was an unlimited number of common shares without par value.

### Issued capital

During the year ended February 28, 2019, the Company issued 1,572,000 (2018 - 6,300,000) common shares for the exercise of stock options.

During the year ended February 28, 2019, the Company issued 2,321,767 (2018 - 5,912,321) common shares for the exercise of share purchase warrants.

During the year ended February 28, 2019, the Company issued 26,122,619 (2018 - 2,000,000) common shares for partial redemptions of its convertible debentures as follows (Note 15):

a) 2,100,000 common shares, valued at $373,427, as partial redemption of Debenture 6 in December 2018;
b) 5,000,805 common shares, valued at $1,050,956, as partial redemption of Debenture 4 in February 2019;
c) 3,453,048 common shares, valued at $442,051, as partial redemption of Debenture 4 in January 2019;
d) 3,421,055 common shares, valued at $614,356, as partial redemption of Debenture 4 in December 2018;
e) 1,950,000 common shares, valued at $516,923, as partial redemption of Debenture 4 in September 2018;
f) 2,000,000 common shares, valued at $1,176,849, as partial redemption of Debenture 3 in March 2018; and
g) 8,197,711common shares, valued at $2,730,443 as final redemption of Debenture 1 in May 2018.

(Expressed in Canadian Dollars)

## 16. SHARE CAPITAL (continued)

**Issued capital** (continued)

During the year ended February 28, 2018, the Company issued 2,000,000 common shares, valued at $2,577,748, for partial redemptions of Debenture 1 in January 2018 (Note 15).

During the year ended February 28, 2019, the Company issued 3,409,385 common shares for acquisitions and as share-based payments:

a) 483,871 common shares, valued at $150,000, to SHC to acquire a 50% interest in CEPG in August 2018 (Note 9); and
b) 2,925,514 common shares, valued at $1,696,798, as consulting fees for the application of an RMD Certificate in Massachusetts in May 2018.

During the year ended February 28, 2018, the Company issued 21,625,769 common shares for acquisitions and as share-based payments:

a) 250,000 common shares, valued at $107,500, to the members of the Company's Cannabis Advisory Board as consulting fees in March 2017 (Note 18);
b) 5,000,000 common shares, valued at $2,150,000, as a finder's fee for a California Extraction License in March 2017;
c) 250,000 common shares, valued at $58,750, to acquire three parcels of land in Florida in June 2017 (Note 8);
d) 1,704,753 common shares at a price of $0.146 per unit for gross proceeds of $248,894 in September 2017. Each unit is comprised of one common share and one share purchase warrant with each whole warrant exercisable at $0.20 per common share for one year with certain acceleration clauses;
e) 5,000,000 common shares, valued at $1,150,000, to AR E1 LLC to acquire exclusive right to use its patented technology (Note 10) in October 2017;
f) 250,000 common shares, valued at $140,000, to acquire a 120-acre industrial hemp farm in Amity, Maine in December 2017 (Note 8);
g) 1,500,000 common shares, valued at $51,000, to the Chief Executive Officer ("CEO") of the Company as management fees (Note 18) in February 2018; and
h) 7,671,016 common shares at a price of $0.27 per unit for gross proceeds of $2,071,174 (of which $664,207 was received at February 28, 2017) related to a non-brokered private placement in March 2017. Each unit is comprised of one common share and one-half share purchase warrant with each whole warrant exercisable at $0.37 per common share for one year with certain acceleration clauses. The Company paid share issuance costs of $244,250 and issued 408,168 broker's warrants, valued at $97,048, associated with the private placement.

**Stock options**

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant stock options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the Plan, the exercise price of each stock option shall not be less than the market price of the Company's shares on the grant date. The stock option period shall be a period of time fixed by the Board not to exceed the maximum term permitted by the Exchange. The stock options granted vest at the discretion of the Board. The following table summarizes the stock options outstanding and exercisable as at February 28, 2019:

| Grant date | Exercise price | Expiry date | Number outstanding | Number exercisable |
|---|---|---|---|---|
| Oct 07, 2016 | $ 0.310 | Oct 07, 2021 | 2,150,000 | 2,150,000 |
| Mar 08, 2017 | $ 0.420 | Mar 08, 2022 | 500,000 | 500,000 |
| Aug 23, 2017 | $ 0.195 | Aug 23, 2022 | 500,000 | 500,000 |
| Feb 08, 2018 | $ 0.960 | Feb 08, 2023 | 281,250 | 281,250 |
| Jun 06, 2018 | $ 0.500 | Jun 06, 2023 | 928,000 | 928,000 |
| Jun 12, 2018 | $ 0.450 | Jun 12, 2023 | 700,000 | 700,000 |
| Sep 21, 2018 | $ 0.395 | Sep 21, 2023 | 4,625,000 | 4,625,000 |
| Jan 30, 2019 | $ 0.240 | Jan 30, 2024 | 300,000 | 300,000 |
| **Total** | | | 9,984,250 | 9,984,250 |

As at February 28, 2019, the weighted average remaining life of the outstanding stock options was 3.96 years (2018 - 4.41 years).

(Expressed in Canadian Dollars)

**16. SHARE CAPITAL** (continued)

**Stock options** (continued)

The changes in stock options outstanding for the years ended February 28, 2019 and 2018 are as follows:

| | Number of stock options | Weighted average exercise price |
|---|---|---|
| **Balance as at February 28, 2017** | 2,900,000 | 0.31 |
| Granted | 13,912,500 | 0.71 |
| Exercised | (6,300,000) | 0.26 |
| Cancelled/Expired | (3,875,000) | 1.24 |
| **Balance as at February 28, 2018** | 6,637,500 | 0.65 |
| Granted[1] | 11,018,750 | 0.46 |
| Exercised | (1,572,000) | 0.29 |
| Cancelled/Expired[1] | (6,100,000) | 0.81 |
| **Balance as at February 28, 2019** | 9,984,250 | 0.39 |

[1] Included 2,893,750 stock options granted and cancelled during the same year

The weighted average fair value of all compensatory stock options granted was estimated to be $0.32 (2018 - $0.24) per share using the Black-Scholes option pricing model with following assumptions:

| Weighted average: | February 28 2019 | February 28 2018 |
|---|---|---|
| Risk free interest rate | 2.09% | 1.77% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 132.2% | 162.0% |
| Expected life in years | 5 years | 5 years |

**Share purchase warrants**

The following table summarizes the share purchase warrants outstanding as at February 28, 2019:

| Issue date | Exercise price | Expiry date | Number outstanding | Number exercisable |
|---|---|---|---|---|
| Dec 21, 2017 | $ 0.40 | Dec 21, 2020 | 5,000,000 | 5,000,000 |
| Aug 09, 2018 | $ 0.24 | Aug 09, 2021 | 13,000,000 | 13,000,000 |
| Nov 09, 2018 | $ 0.34 | Nov 09, 2021 | 3,200,000 | 3,200,000 |
| Aug 04, 2017 | $ 0.20 | Aug 04, 2022 | 537,500 | 537,500 |
| Dec 21, 2017 | $ 0.88 | Dec 21, 2022 | 356,104 | 356,104 |
| Sep 20, 2018 | $ 0.38 | Sep 20, 2023 | 1,250,000 | 312,500 |
| **Total** | | | 23,343,604 | 22,406,104 |

As at February 28, 2019, the weighted average remaining life of the outstanding share purchase warrants was 2.47 years (2018 - 2.56 years).

(Expressed in Canadian Dollars)

**16. SHARE CAPITAL** (continued)

**Share purchase warrants** (continued)

The changes in share purchase warrants outstanding for the years ended February 28, 2019 and 2018 are as follows:

| | Number of share purchase warrants | Weighted average exercise price |
|---|---|---|
| **Balance as at February 28, 2017** | 1,962,446 | 0.26 |
| Issued | 14,013,744 | 0.40 |
| Exercised | (5,912,321) | 0.33 |
| **Balance as at February 28, 2018** | 10,063,869 | 0.41 |
| Issued[1] | 24,871,150 | 0.40 |
| Exercised/Exchanged | (2,661,053) | 0.23 |
| Cancelled/Expired[1] | (8,930,362) | 0.70 |
| **Balance as at February 28, 2019** | 23,343,604 | 0.30 |

[1] Inlcuded 7,421,150 share purchase warrants replaced during the same year

The weighted average fair value of all compensatory share purchase warrants issued was estimated to be $0.33 (2018 - $0.24) per share using the Black-Scholes option pricing model with following assumptions:

| Weighted average: | February 28 2019 | February 28 2018 |
|---|---|---|
| Risk free interest rate | 2.16% | 0.79% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 132% | 146% |
| Expected life in years | 5 years | 1 year |

**Share-based payments**

During the year ended February 28, 2019, the Company recognized $5,245,503 in share-based payments, which included:

a) 2,925,514 common shares issued to consultants related to the application of an RMD Certificate in Massachusetts;
b) 11,018,750 stock options granted to directors, officers, employees, and consultants of the Company; and
c) 1,250,000 share purchase warrants issued to extend the Master Lease Agreement.

During the year ended February 28, 2018, the Company recognized $8,971,114 in share-based payments, which included:

a) 5,000,000 common shares issued to a third party as a finder's fee for a California Extraction License;
b) 6,655,050 stock options granted to directors, officers, employees, and consultants of the Company; and
c) 1,250,000 share purchase warrants issued as fees for the Master Lease Agreement.

(Expressed in Canadian Dollars)

## 17. NON-CONTROLLING INTERESTS

Summarized financial information about TerraCity, FFM Consulting Services, and Future Farm Maine, LLC as at February 28, 2019 is as follows:

| For the year ended February 28, 2019 | TerraCity | FFM Consulting | FF Maine |
|---|---|---|---|
| Current assets | $ - | $ 1,117 | $ 1,543,304 |
| Non-current assets | - | 62,952 | 283,524 |
| Total liabilities | (123,121) | - | - |
| Revenue | - | - | 621 |
| Net and comprehensive income (loss) | (1,458,216) | (27,604) | 381,960 |
| Share of income (loss) attributable to non-controlling interests | $ (364,554) | $ (5,521) | $ 76,392 |

| For the year ended February 2018 | TerraCity | FFM Consulting | FF Maine |
|---|---|---|---|
| Current assets | $ - | $ 19,298 | $ - |
| Non-current assets | 1,458,216 | 212,639 | - |
| Total liabilities | (257,058) | (481,041) | - |
| Revenue | - | 11,929 | - |
| Net and comprehensive income (loss) | - | (249,103) | - |
| Share of loss attributable to non-controlling interests | $ - | $ (49,821) | $ - |

## 18. RELATED PARTY TRANSACTIONS AND BALANCES

The aggregate value of transactions relating to key management personnel and related parties were as follows:

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| Management fees | $ 269,858 | $ 231,640 |
| Consulting fees | 257,780 | 258,033 |
| Project management | 376,626 | 290,683 |
| Professional fees | - | 137,492 |
| Rent and utilities | 24,948 | 33,096 |
| Share-based payments | 471,016 | 1,562,497 |
| Swap fees and other | 390,160 | 140,000 |
| | $ 1,790,388 | $ 2,653,441 |

During the year ended February 28, 2019, the Company entered into swap fee agreements with the CEO and a director of the Company, in which they agreed to exchange 3,600,000 free trading common shares of the Company with holders of 3,600,000 restricted shares of the Company. Aggregate swap fees of $227,660 (2018 - $140,000) were paid and recognized in the profit or loss. In addition, the Company distributed 650,000 common shares of NexTech valued at $162,500, to related parties during the year ended February 28, 2019.

Amounts due to related parties as at February 28, 2019 and 2018 are as follows:

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Due to TerraSphere | $ 97,540 | $ 97,540 |
| Due to CEO of the Company | 91,342 | 155,864 |
| Due to companies controlled by directors of the Company | 344,107 | 114,066 |
| | $ 532,989 | $ 367,470 |

(Expressed in Canadian Dollars)

## 19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

**Change in non-cash working capital items**

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| Accounts receiv ables and other | $ (358,981) | $ 178,811 |
| Inv entory | (64,090) | (83,155) |
| Biological assets | (430,234) | (246,754) |
| Accounts payable and accrued liabilities | 742,467 | 632,384 |
| | $ (110,838) | $ 481,286 |

**Significant non-cash investing and financing activities**

During the year ended February 28, 2019, the Company:

a) issued 26,122,619 common shares, valued at $6,905,005, on the conversion and settlement of convertible debentures and accrued interest;
b) issued 483,871 common shares, valued at $150,000, for the acquisition of the investment in CEPG;
c) recorded finance lease liability of $148,325;
d) allocated $1,400,000 of assets held-for-sale to investment in an associated company;
e) completed the plan of arrangement surrounding 11,000,000 common shares of NexTech, valued at $2,750,000;
f) returned land and associated mortgage payable valued at $773,489 respectively; and
g) reallocated $497,810 from reserve to share capital for exercise of stock options and share purchase warrants.

During the year ended February 28, 2018, the Company:

a) issued 5,000,000 common shares, valued at $1,150,000, for the acquisition of intangible assets and goodwill;
b) issued 1,500,000 common shares, valued at $51,000, as management fees;
c) issued 5,000,000 units, valued at $2,150,000, as finder's fees;
d) issued 408,168 share purchase warrants, valued at $97,048, as broker's warrants; and
e) reallocated $1,666,492 from reserve to share capital for exercise of stock options and share purchase warrants.

## 20. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a flexible capital structure that optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and adjusts 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 debt, and acquire or dispose of assets.

The Company is dependent on the capital markets as its primary source of operating capital and the Company's capital resources are largely determined by the markets for hemp and ornamental nursery plants; the status of the Company's projects in relation to these markets; and its ability to compete for investor support of its projects. There were no changes in the Company's approach to capital management during the year ended February 28, 2019. The Company is not subject to any external capital requirements.

(Expressed in Canadian Dollars)

## 21. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The Company's financial instruments as at February 28, 2019 and 2018 are summarized as follows

| | February 28 2019 | February 28 2018 |
|---|---|---|
| **Financial assets** | | |
| Amortized cost: | | |
| Cash | $ 69,397 | $ 236,233 |
| Trade receivable and other, net | 733,381 | 331,509 |
| Fair value through profit or loss: | | |
| Derivative asset | 276,549 | - |
| **Financial liabilities** | | |
| Amortized cost: | | |
| Accounts payable and accrued liabiltiies | 1,955,832 | 1,422,918 |
| Finance leases | 257,354 | 169,957 |
| Loans and borrowings | 175,411 | 902,107 |
| Convertible debentures - loan | 1,686,670 | 1,112,632 |
| Fair value through profit or loss: | | |
| Convertible debentures - derivative | $ 2,053,920 | $ 4,572,953 |

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

a) Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 - Inputs for assets and liabilities that are not based on observable market data.

| | Level 1 | Level 2 | Level 3 | **Total** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative asset | $ - | $ 276,549 | $ - | $ 276,549 |
| **Financial liabilities** | | | | |
| Convertible debentures - derivative | $ - | $ - | $ 2,053,920 | $ 2,053,920 |

The fair value of the derivative component of the convertible debentures was estimated using the Black-Scholes option pricing model using historical volatility as an estimate of future volatility. As at February 28, 2019, if the volatility used was increased by 10%, the impact would be an increase to the derivative component of $198,413, with a corresponding increase to loss.

The fair value of cash, trade receivables, accounts payable and accrued liabilities, and loans and borrowings approximate fair value due to the short-term nature of the financial instruments.

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy. The carrying amounts of current financial instruments are a reasonable estimate of their fair values because of their current nature.

## 21. FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

Discussions of risks associated with financial assets and liabilities are detailed below:

**Credit risk**

Credit risk arises from cash held with banks and financial institutions and receivables. The maximum exposure to credit risk is equal to the carrying value of these financial assets. The Company's cash is primarily held with a major Canadian bank.

**Currency risk**

A portion of the Company's financial assets and liabilities are denominated in US dollars. The Company monitors this exposure but has no hedge positions.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they become due. The majority of the Company's accounts payable and accrued liabilities are payable in less than ninety days. The Company prepares annual budgets and monitors expenditures to manage short-term liquidity. Due to the nature of the Company's activities, funding for long-term liquidity needs is dependent on the Company's ability to obtain additional financing through various means, including equity financing.

**Interest rate risk**

Interest rate risk mainly arises from the Company's cash, which receives interest based on market interest rates. Fluctuations in cash flows due to changes in market interest rates are negligible.

## 22. CONTINGENCIES AND COMMITMENTS

**Contingencies**

The Company is involved in various legal claims and legal actions in the ordinary course of business. The claims were initiated by the Company's former landlord and lender. As at February 28, 2019, a litigation provision of $46,080 (2018 - $190,000) for the claims was recorded in accrued liabilities (Note 12).

**Commitments**

In March 2019, the Company entered into a lease agreement with Washington High LLC for premises in Dedham, MA. The lease has a one-year term commencing March 2019 for US$3,200 per month.

In December 2018, the Company amended its lease agreement with Haymart LLC ("Haymart") for 100 acres of land in Maine, where the lease payment has been reduced to US$50,000 from US$100,000 per annum. This lease agreement has a four-year term commenced in January 2018.

In September 2018, the Company entered into a lease agreement with Rocky Mountain Property Management Company ("Rocky Mountain") for additional premises in Vancouver, BC. The lease has a one-year term commenced in September 2018 with an option to renew for one additional year for $1,400 per month. Rocky Mountain is a related party of the Company.

(Expressed in Canadian Dollars)

## 22. CONTINGENCIES AND COMMITMENTS

**Commitments** (continued)

In March 2018, FFPR, an associated company of the Company, signed a lease agreement for a medical dispensary location in the Condado district of San Juan, Puerto Rico. The lease has a five-year term commenced in March 2018 with an option to renew for a second five-year terms for US$7,000 per month with a 3% annual adjustment.

In January 2018, the Company renewed a lease agreement with Baywood Nurseries Company, Inc. for premises in Orange County, Florida. The original lease commenced in January 2017 for one year with an option to renew for one additional year. The renewed lease has a one-year term commenced in January 2018 for US$30,000 per annum.

In January 2018, the Company entered into a lease agreement with 248 Northport LLC for premises in Belfast, Maine. The lease has a two-year term commenced in February 2018 for US$42,120 per annum.

In June 2016, the Company entered into a consulting services agreement with CBO, who will assist the Company in securing "New Market Tax Credits" of up to $6,000,000. A director of the Company is the CEO of CBO. In connection with their services, the Company will pay CBO a closing fee equal to 6% of the tax credit and incur on-going management fees equal to 0.5% of the tax credit for the following 7 years.

As at February 28, 2019, the total remaining operating lease commitments were $547,873 (2018 - $942,025).

In May 2016, the Company entered into a management contract with the CEO of the Company. Subject to the terms of the agreement, if the contract is terminated without cause, the CEO will be entitled to cash severance of US$180,000, plus an advance for one year's rent on the CEO's current apartment.

## 23. SEGMENTED INFORMATION

The Company has three reportable segments arising from its different product lines, being that of (a) indoor plant growth technology specializing in LED lighting and vertical farming solutions primarily based in Canada and the United States, (b) sale of cannabis biomass, seeds, and oil including from hemp, and (c) the operation of an ornamental plant greenhouse. Capital assets are located primarily in the United States. Revenues by product line are as follows:

| For the year ended February 28, 2019 | Revenue | Cost of goods sold | Biological asset changes in FV | Gross profit |
|---|---|---|---|---|
| Nursery plants | $ 3,498,021 | $ (2,817,138) | $ 1,098,143 | $ 1,779,026 |
| LED lighting | 44,271 | (31,123) | - | 13,148 |
| | $ 3,542,292 | $ (2,848,261) | $ 1,098,143 | $ 1,792,174 |

| For the year ended February 28, 2018 | Revenue | Cost of goods sold | Gross profit |
|---|---|---|---|
| Nursery plants | $ 389,848 | $ (43,248) | $ 346,600 |
| LED lighting | 142,897 | (93,875) | 49,022 |
| Cannabis biomass, seeds, and oil including from hemp | 11,930 | (100,554) | (88,624) |
| Total for continuing operations | 544,675 | (237,677) | 306,998 |
| Total for discontinued operations (Note 25) | 146,090 | (78,204) | 67,886 |
| | $ 690,765 | $ (315,881) | $ 374,884 |

For the year ended February 28, 2019, one (2018 - Nil) customer represented more than 10% of the Company's sales in the nursery plants segment with sales of $900,746.

(Expressed in Canadian Dollars)

## 24. INCOME TAXES

The tax effect (computed by applying the Canadian federal and provincial statutory rates) of the significant temporary differences, which comprise deferred income tax assets and liabilities, are as follows:

| For the year ended | February 28 2019 | February 28 2018 |
|---|---|---|
| Income (loss) before income taxes | $ (9,415,757) | $ (21,110,565) |
| Canadian federal and provincial income tax rates | 27.00% | 26.50% |
| Expected income tax expense (recovery) at statutory income tax rate | (2,542,000) | (5,525,000) |
| Changes in statutory, foreign tax, foreign exchange rate and other | 454,000 | 778,000 |
| Permanent difference and other | (400,000) | 2,471,000 |
| Change in unrecognized deferred tax assets | 2,488,000 | 2,276,000 |
| **Total income tax expense** | $ - | $ - |

The significant components of deferred income tax assets and liabilities are as follows:

| Deferred income tax assets (liabilities) | February 28 2019 | February 28 2018 |
|---|---|---|
| Property, plant and equipment | $ 632,000 | $ (27,000) |
| Non-capital losses | 5,469,000 | 3,959,000 |
| Other | 413,000 | 94,000 |
| | 6,514,000 | 4,026,000 |
| Unrecognized deferred tax assets | (6,514,000) | (4,026,000) |
| **Net deferred income tax asset (liability)** | $ - | $ - |

As at February 28, 2019, the Company had non-capital losses carried forward of $20,440,000 (2018 - $12,083,000), which are available to offset future years' taxable income and expire in full by the year 2039.

## 25. ASSET AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE

In October 2016, the Company issued 12,000,000 common shares, valued at $2,580,000, to acquire a portfolio of revenue-generating apps and source code ("App Portfolio"), which was intended to expand the Company's technology portfolio and position the Company for the roll-out of a suite of marijuana centric apps (Note 10).

In October 2017, the Company entered into a license agreement with AR E1 LLC to acquire the exclusive right to use AR E1 LLC's patented technology in the cannabis industry for 5,000,000 common shares, valued at $1,150,000 (Note 10).

In March 2018, the Company sold both the App Portfolio and license agreement with AR E1 LLC (collectively, the "Disposal Group") to NexTech for 13,000,000 common shares of NexTech, valued at $1,400,000 (Note 10). As at February 28, 2018, the related assets and liabilities were reclassified as held-for-sale and classified as current. On the reclassification as held-for-sale, the Disposal Group was measured at the lower of carrying value and fair value less costs to sell, which resulted in an impairment charge of $1,470,887 attributable to prepaid expenses of $596,625 and goodwill on the App Portfolio.

The assets and liabilities and operations of the Disposal Group for year ended February 28, 2019 and 2018 are as follows:

| | February 28 2019 | February 28 2018 |
|---|---|---|
| Accounts receivable | $ - | $ 23,456 |
| Intangible assets and goodwill | - | 1,376,544 |
| Total assets | - | 1,400,000 |
| | | |
| Total liabilities | $ - | $ - |

(Expressed in Canadian Dollars)

**25. ASSET AND LIABILITIES CLASSIFIED AS HELD-FOR-SALE** (continued)

| | Year ended February 28 2019 | Year ended February 28 2018 |
|---|---|---|
| Revenue | $ - | $ 146,090 |
| Cost of good sold | - | (78,204) |
| **Gross profit** | - | 67,886 |
| Consulting expense | - | (129,000) |
| Depreciation | - | (56,194) |
| Impairment of goodwill | - | (1,003,262) |
| Impairment of prepaid expenses | - | (467,625) |
| | $ - | $ (1,588,195) |

**26. EVENTS AFTER THE REPORTING DATE**

Subsequent to the year ended February 28, 2019, the Company:

a) entered into a secured convertible debenture agreement of US$696,197 ("Debenture 7") in March 2019 to refinance the aggregate outstanding principal and interest balance of Debenture 6 (Note 15), bearing annual interest at 8% and is repayable within 12 months, or convertible into common shares at $0.16;

b) entered into a secured convertible debenture agreement of US$500,000 ("Debenture 8") in March 2019, bearing annual interest at 8% and is repayable within 12 months, or convertible into common shares at a $0.16;

c) entered into a secured convertible debenture agreement of US$1,851,163 ("Debenture 9") in May 2019 to refinance the aggregate outstanding principal and accrued interest balance of Debenture 5 (Note 15), bearing annual interest at 8% and is repayable within 12 months, or convertible into common shares at $0.14;

d) entered into a secured convertible debenture agreement of US$400,000 ("Debenture 10") in May 2019, bearing annual interest at 8% and is repayable within 12 months, or convertible into common shares at $0.14; and

e) issued 19,485,721 common shares for partial redemptions of Debentures 4 (Note 15) and 9.