# FUTURE FARM TECHNOLOGIES INC.

Condensed Consolidated Financial Statements

For the Three Months Ended May 31, 2017

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

# NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

**FUTURE FARM TECHNOLOGIES INC.**
Condensed Consolidated Statements of Financial Position
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

| | May 31, 2017 ($) | February 28, 2017 ($) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash | 1,191,777 | 2,090,615 |
| Accounts receivable (Note 4) | 53,927 | 62,250 |
| Deposits | 23,000 | 23,000 |
| Prepaid expenses (Note 5) | 805,533 | 615,525 |
| Inventory (Note 6) | 139,026 | 18,653 |
| Total current assets | 2,213,263 | 2,810,043 |
| Non-current assets | | |
| Prepaid expenses (Note 5) | 435,375 | 467,625 |
| Property, plant and equipment (Note 7) | 1,187,950 | 1,015,547 |
| Intangible assets (Note 8) | 1,583,216 | 1,583,216 |
| Goodwill (Note 8) | 1,167,000 | 1,167,000 |
| Total non-current assets | 4,373,541 | 4,233,388 |
| Total Assets | 6,586,804 | 7,043,431 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 416,423 | 415,382 |
| Due to related parties (Notes 8 and 10) | 143,655 | 158,975 |
| Mortgage payable (Note 12) | 58,293 | 56,102 |
| Note payable (Note 11) | 26,939 | 59,225 |
| Total current liabilities | 645,310 | 689,684 |
| Non-current liabilities | | |
| Mortgage payable (Note 12) | 795,643 | 795,783 |
| Total liabilities | 1,440,953 | 1,485,467 |
| Shareholders' equity | | |
| Share capital (Note 13) | 18,935,748 | 14,872,872 |
| Shares subscribed (Note 13) | - | 664,207 |
| Commitment to issue shares (Note 17) | 84,250 | 109,750 |
| Equity reserves (Note 13) | 1,229,588 | 854,957 |
| Deficit | (15,381,214) | (11,244,113) |
| Equity attributable to shareholders | 4,868,372 | 5,257,673 |
| Non-controlling interest (Note 9) | 277,479 | 300,291 |
| | 5,145,851 | 5,557,964 |
| Total liabilities and shareholders' equity | 6,586,804 | 7,043,431 |

Nature of operations and continuance of business (Note 1)
Commitments (Note 17)

Approved and authorized for issuance by the Board of Directors on July 31, 2017:

*/s/ "William Gildea"* — William Gildea, Director

*/s/ "Craig Stanley"* — Craig Stanley, Director

(The accompanying notes are an integral part of these condensed consolidated financial statements)

**FUTURE FARM TECHNOLOGIES INC.**
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

| | Three months ended May 31, 2017 $ | Three months ended May 31, 2016 $ |
|---|---|---|
| Sales – LED | 40,905 | 24,181 |
| Cost of goods sold - LED | (26,417) | (8,464) |
| Subtotal | 14,488 | 15,717 |
| Sales – app portfolio | 44,649 | - |
| Subtotal | 44,649 | - |
| Gross profit | 59,137 | 15,717 |
| Operating expenses | | |
| Advertising, promotion and public relations | 195,431 | 913 |
| Bad debts (recovery) | (7,195) | 4,000 |
| Consulting and management fees (Note 10) | 700,066 | 9,000 |
| Office and miscellaneous | 58,884 | 1,234 |
| Professional fees (Note 10) | 42,742 | 18,940 |
| Project management (Note 13) | 714,609 | – |
| Rent and utilities (Note 10) | 9,021 | 8,274 |
| Share-based compensation (Note 14) | 2,427,583 | – |
| Transfer agent and regulatory fees | 10,162 | 6,113 |
| Travel | 54,752 | – |
| Wages and benefits | 12,948 | 7,837 |
| Total operating expenses | 4,219,003 | 56,311 |
| | (4,159,866) | (40,594) |
| Interest expense | (9,725) | – |
| Loss on foreign exchange | (15,794) | – |
| Rental income | 25,472 | – |
| | (47) | – |
| Net loss and comprehensive loss | (4,159,913) | (40,594) |
| Net loss and comprehensive loss attributed to: | | |
| Shareholders of the Company | (4,137,101) | (40,594) |
| Non-controlling interest | (22,812) | – |
| | (4,159,913) | (40,594) |
| Loss per share, basic and diluted | (0.05) | (0.00) |
| Weighted average number of common shares outstanding | 88,392,260 | 19,965,307 |

(The accompanying notes are an integral part of these condensed consolidated financial statements)

**FUTURE FARM TECHNOLOGIES INC.**
Condensed Consolidated Statements of Changes in Shareholder's Equity
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

| | Number of shares | Share capital | Shares subscribed | Commitment to issue shares | Non-controlling interest | Equity reserves | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| Balance, February 29, 2016 | 18,912,009 | $ 6,107,888 | $ - | $ - | $ - | $ - | $ (6,067,942) | $ 39,946 |
| Shares issued pursuant to asset purchase agreement | 16,474,238 | 906,083 | - | - | - | - | - | 906,083 |
| Non-controlling interest | - | - | - | - | 307,300 | - | - | 307,300 |
| Net loss for the period | - | - | - | - | - | - | (40,594) | (40,594) |
| Balance, May 31, 2016 | 35,386,247 | $ 7,013,971 | $ - | $ - | $ 307,300 | $ - | $(6,108,536) | $ 1,212,735 |
| | | | | | | | | |
| Balance, February 28, 2017 | 75,997,843 | $ 14,872,872 | $ 664,207 | $ 109,750 | $ 300,291 | $ 854,957 | $(11,244,113) | $ 5,557,964 |
| Shares issued pursuant to consulting services | 250,000 | 107,500 | - | - | - | - | - | 107,500 |
| Private placement | 7,671,016 | 2,071,174 | (664,207) | - | - | - | - | 1,406,967 |
| Share issuance costs | - | (244,250) | - | - | - | - | - | (244,250) |
| Broker's warrants | - | (97,048) | - | - | - | 97,048 | - | - |
| Exercise of warrants | 500,000 | 50,000 | - | - | - | - | - | 50,000 |
| Shares issued for finder's fee | 5,000,000 | 2,150,000 | - | - | - | - | - | 2,150,000 |
| Shares issued for management fees | 750,000 | 25,500 | - | (25,500) | - | - | - | - |
| Share-based compensation | - | - | - | - | - | 277,583 | - | 277,583 |
| Net loss for the period | - | - | - | - | (22,812) | - | (4,137,101) | (4,159,913) |
| Balance, May 31, 2017 | 90,168,859 | $ 18,935,748 | $ - | $ 84,250 | $ 277,479 | $ 1,229,588 | $(15,381,214) | $ 5,145,851 |

(The accompanying notes are an integral part of these condensed consolidated financial statements)

**FUTURE FARM TECHNOLOGIES INC.**
Condensed Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

| | Three months ended May 31, 2017 $ | Three months ended May 31, 2016 $ |
|---|---|---|
| Operating Activities | | |
| Net loss | (4,159,913) | (40,594) |
| Items not involving cash: | | |
| Bad debt expense (recovery) | (7,195) | – |
| Foreign exchange | 17,798 | – |
| Interest expense | 9,725 | – |
| Rental income | (25,472) | – |
| Share-based compensation | 2,427,583 | – |
| Shares issued for consulting and marketing services | 107,500 | – |
| Changes in non-cash operating working capital: | | |
| Amounts receivable | 15,518 | 6,486 |
| Prepaid expenses | (157,758) | – |
| Inventory | (120,373) | (39,835) |
| Accounts payable and accrued liabilities | 1,041 | (17,313) |
| Due to related parties | (15,320) | 17,296 |
| Net Cash Used in Operating Activities | (1,906,866) | (73,960) |
| Investing Activities | | |
| Purchase of equipment | (172,403) | – |
| Net Cash Used in Investing Activities | (172,403) | – |
| Financing Activities | | |
| Proceeds from private placement | 1,406,967 | – |
| Share issuance costs | (244,250) | – |
| Proceeds from exercise of warrants | 50,000 | – |
| Repayment of note payable | (32,286) | – |
| Net Cash Provided by Financing Activities | 1,180,431 | – |
| Change in Cash | (898,838) | (73,960) |
| Cash, Beginning of Period | 2,090,615 | 97,561 |
| Cash, End of Period | 1,191,777 | 23,601 |
| Non-cash Investing and Financing Activities: | | |
| Shares issued for intangible assets and goodwill | – | 906,083 |
| Broker's warrants | 97,048 | – |

(The accompanying notes are an integral part of these condensed consolidated financial statements)

1. Nature of Operations and Continuance of Business

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”) under the symbol “FFT”.

The Company’s head office is located at 510 – 580 Hornby Street, Vancouver, British Columbia, V6C 3B6. The Company is an indoor plant growth technology company specializing in LED lighting, mobile applications and vertical farming solutions.

These condensed 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 at May 31, 2017, the Company has an accumulated deficit of $15,381,214 (February 28, 2017 - $11,244,113) and a working capital of $1,567,953 (February 28, 2017 - $2,120,359). 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 equity financing to continue operations, and 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 condensed consolidated financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. Significant Accounting Policies

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited annual financial statements as at February 28, 2017. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited financial statements for the year ended February 28, 2017.

(a) Statement of Compliance

These unaudited condensed consolidated financial statements, including comparatives have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. The significant accounting policies applied in these consolidated financial statements are based on the IFRS issued and outstanding as of May 31, 2017.

*Basis of presentation*

These condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these condensed consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

*Basis of consolidation*

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

2. Significant Accounting Policies (continued)

(a) Statement of Compliance (continued)

*Subsidiaries*
Subsidiaries are entities controlled by the Company. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

*Functional and presentation currency*
These condensed consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The principal subsidiaries of the Company as of May 31, 2017 are as follows:

| **Name of subsidiary** | **Place of Incorporation** | **Ownership Interest May 31, 2017** | **Ownership Interest February 28, 2017** |
|---|---|---|---|
| TerraCity Lawrence, LLC | USA | 75% | 75% |
| FFM Consulting Services, LLC | USA | 80% | 80% |

(b) Estimates, judgements and assumptions

The preparation of the Company's condensed 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:

<u>Significant judgments</u>

(i) 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. The acquisition of TerraCity Lawrence LLC was determined to constitute an acquisition of assets (note 8b) and the acquisition of the gaming apps portfolio was determined to be an acquisition of a business (note 8a).

(ii) 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. The determination of 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.

2. Significant Accounting Policies (continued)

(b) Estimates, judgements and assumptions (continued)

(iii) Going concern

The preparation of the condensed consolidated financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in note 1.

Significant estimates

(i) 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.

(ii) Valuation of share-based compensation and broker's warrants

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. 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.

(iii) Inventories

The Company estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

(iv) Warranty provisions

Warranty provisions are recognized for the future obligations to provide services for the repairs and maintenance of products sold to its customers. The Company assesses its warranty provision based on experience. Actual costs incurred may differ from those amounts estimated.

(v) 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. Significant Accounting Policies (continued)

(b) Estimates, judgements and assumptions (continued)

(vi) 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.

(c) New Accounting Standards and Interpretation

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its condensed consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 15 – Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

Effective for annual periods beginning on or after January 1, 2019:

On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), according to which, all leases will be on the statement of financial position, except those that meet the limited exception criteria.

(Expressed in Canadian dollars)

3. Acquisition of Assets – LED Business

On October 1, 2015, the Company entered into an asset purchase agreement with two non-related parties to which the Company agreed to pay $60,000 and issue 1,500,000 common shares with a fair value of $15,000 for the acquisition of accounts receivable, inventory, and net revenues generated from the date of the agreement until the date of closing which was effective February 11, 2016.

The following table sets forth the allocation of the purchase price to the assets acquired based on estimates of fair value:

| | $ |
|---|---|
| Accounts receivable | 23,080 |
| Inventory | 40,401 |
| Trade receivables | 19,029 |
| Gain on consideration paid in excess of fair value | (7,510) |
| | 75,000 |

4. Accounts Receivable

| | May 31, 2017 $ | February 28, 2017 $ |
|---|---|---|
| Trade accounts receivable | 53,436 | 91,766 |
| GST receivable | 17,951 | 12,599 |
| Allowance for doubtful accounts | (17,460) | (42,115) |
| | 53,927 | 62,250 |

During the period ended May 31, 2017, the Company recognized a bad debt recovery of $7,195.

During the year ended February 28, 2017, the Company recognized $54,086 in bad debts expense of which $28,361 was booked to allowance for doubtful expense and $25,725 relates to impairment of accounts receivable.

5. Prepaid Expenses and Deposits

| | May 31, 2017 $ | February 28, 2017 $ |
|---|---|---|
| Consulting fees (Note 8 (a)) | 593,077 | 557,176 |
| Other prepaid | 212,456 | 58,349 |
| | 805,533 | 615,525 |
| Consulting fees – long term (Note 8(a)) | 435,375 | 467,625 |
| | 1,240,908 | 1,083,150 |

(Expressed in Canadian dollars)

6. Inventory

| | May 31, 2017 $ | February 28, 2017 $ |
|---|---|---|
| Finished goods | 139,026 | 18,653 |
| | 139,026 | 18,653 |

During the year ended February 28, 2017, the Company recorded an inventory impairment of $7,768. The Company recognised $132,221 (2016 - $6,043) of inventory costs as cost of sales during the year ended February 28, 2017.

7. Property and Equipment

| | Land $ | Equipment $ | Furniture and equipment $ | Total $ |
|---|---|---|---|---|
| Cost: | | | | |
| Balance, February 29, 2016 | - | - | - | - |
| Additions | 1,015,547 | - | - | 1,015,547 |
| Balance, February 28, 2017 | 1,015,547 | - | - | 1,015,547 |
| Additions | - | 172,403 | - | 172,403 |
| Balance, May 31, 2017 | 1,015,547 | 172,403 | - | 1,187,950 |
| Amortization: | | | | |
| Balance, February 29, 2016, 2017 and May 31, 2017 | - | - | - | - |
| Carrying Amounts: | | | | |
| Balance, February 29, 2016 | - | - | - | - |
| Balance, February 28, 2017 | 1,015,547 | - | - | 1,015,547 |
| Balance, May 31, 2017 | 1,015,547 | 172,403 | - | 1,187,950 |

During the year ended February 28, 2017, the Company acquired three parcels of land in Florida for future development of cannabis crops. The consideration paid totaling $1,015,547 represents the assumption of the mortgages outstanding on these parcels of land at the time of acquisition of $851,885, the commitment to issue shares in connection of the acquisition valued at $58,750 and a finder's fee on the acquisition of land of $104,912. See Note 12.

During the period ended May 31, 2017, the Company purchased state-of-the-art extraction machinery and for the manufacturing of concentrated cannabis oil for a total of $172,403 and had not been put in use as at May 31, 2017.

(Expressed in Canadian dollars)

8. Intangible Assets and Goodwill

(a) 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"). The acquisition of the App Portfolio was intended to expand the Company's tech portfolio and position the Company for the roll-out of a suite of marijuana centric apps. The acquisition of the App Portfolio was accounted for as a business acquisition.

On initial recognition, the App Portfolio was valued at $119,000 and the Company recorded $2,461,000 in Goodwill. Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. Goodwill is attributable to the assembled workforce and the expected future cash flows of the business. As at February 28, 2017, the Company applied a one-step approach and a discount rate of 25% to determine if the App Portfolio and Goodwill are impaired. The impairment loss is the amount by which the CGU's carrying amount exceeds its recoverable amount. Goodwill has been written down by $1,294,000 to $1,167,000.

Pursuant to the agreement, the Company issued 3,000,000 common shares as prepaid consulting fees in connection with the asset purchase agreement valued at $645,000. As at May 31, 2017, $435,375 was classified as long term prepaid expenses.

(b) On May 19, 2016, the Company entered into an asset purchase agreement to which the Company acquired a 75% interest in TerraCity Lawrence, LLC, a limited liability company developing a commercial scale urban agriculture business. The remaining 25% interest in TerraCity Lawrence, LLC is held by a company in which a director of the Company is an officer. The Company's Chief Executive Officer is a managing member to the vendor company. Pursuant to the agreement, the Company issued 14,976,580 common shares valued at $823,712. In connection with the asset purchase agreement, the Company entered into a license agreement with TerraSphere Systems, LLC, granting the Company licensed worldwide rights for a proprietary system for growing plants in controlled agriculture facilities ("Global License"). The acquisition of TerraCity Lawrence, LLC was accounted for as an asset acquisition.

On May 27, 2016, the Company issued 1,497,658 common shares as a finder's fee in connection with the asset purchase agreement valued at $82,371. The Company also paid $15,811 in transaction costs.

The fair value of the assets acquired and liabilities assumed as at the date of acquisition were as follows:

| | $ |
|---|---|
| Due to TerraSphere Systems | (97,540) |
| Note payable | (131,482) |
| Intangible assets - license | 1,458,216 |
| Net assets acquired | 1,229,194 |
| Non-controlling interest | (307,300) |
| | 921,894 |

Consideration paid:

| | |
|---|---|
| Value of 16,474,238 common shares of the Company | 906,083 |
| Transaction costs | 15,811 |
| | 921,894 |

(Expressed in Canadian dollars)

8. Intangible Assets and Goodwill (continued)

The Company's policy for accounting for impairment of non-current assets with indefinite lives is to use the higher of the estimates of fair value less cost of disposals of these assets or value in use. The Company uses valuation techniques that require significant judgments and assumptions, including those with respect to discount rate and future cash flows.

As at May 31, 2017, the Company performed an impairment test on the Global License and determined that no impairment existed.

(c) During the year ended February 29, 2016, the Company entered into an asset purchase agreement with a non-related party to which the Company agreed to issue 100,000 common shares with a fair value of $6,000 for the acquisition of intellectual property pertaining to a hydroponic watering and feeding system. As at May 31, 2017, the asset has not yet been put to use. As such, no amortization has been recorded for the period ended May 31, 2017.

The following table summarizes the continuity of the Company's intangible assets:

| | $ |
|---|---|
| Balance, February 29, 2016 | 6,000 |
| Additions: | |
| App Portfolio | 119,000 |
| License | 1,458,216 |
| Balance, February 28, 2017 and May 31, 2017 | 1,583,216 |

The following table summarizes the continuity of the Company's goodwill:

| | $ |
|---|---|
| Balance, February 29, 2016 | - |
| Additions | 2,461,000 |
| Impairment | (1,294,000) |
| Balance, February 28, 2017 and May 31, 2017 | 1,167,000 |

9. Non-controlling Interest

As of May 31, 2017, non-controlling interest includes a 25% interest in TerraCity Lawrence, LLC and a 20% interest in FFM Consulting Services, LLC.

| | May 31, 2017 $ | February 28, 2017 $ |
|---|---|---|
| Non-controlling interest, beginning of year/period | 300,291 | - |
| Acquisition of TerraCity Lawrence, LLC | - | 307,300 |
| Share of loss | (22,812) | (7,009) |
| Non-controlling interest, end of year/period | (277,479) | 300,291 |

10. Related Party Transactions

(a) During the period ended May 31, 2017, the Company incurred $nil (2016 - $9,000) in consulting fees to a former director of the Company.

(b) During the period ended May 31, 2017, the Company incurred $7,050 (2016 - $7,050) in rent to a company controlled by a director of the Company.

(c) During the period ended May 31, 2017, the Company incurred $nil (2016 - $6,433) in professional fees to the former Chief Executive Officer of the Company.

(d) During the period ended May 31, 2017, the Company incurred $19,860 (2016 - $nil) in professional fees to an accounting firm of which the Chief Financial Officer is a partner. As at May 31, 2017, $6,972 (February 28, 2017 - $6,584) was owed to this firm.

(e) During the period ended May 31, 2017, the Company incurred $60,263 (2016 - $nil) in management fees to the Chief Executive Officer. As at May 31, 2017, $26,193 (February 28, 2017 - $26,193) was owed to the officer and a total of $25,500 related to a commitment to issue shares (Note 17(b)).

(f) During the period ended May 31, 2017, the Company incurred $50,454 (2016 - $nil) in consulting fees to a company controlled by a director of the Company. As at May 31, 2017 - $12,950 (February 28, 2017 - $4,822) was owed to this company.

(g) During the period ended May 31, 2017, the Company incurred $75,038 (2016 - $Nil) in consulting fees to a company controlled by a director of the Company.

11. Note Payable

On December 18, 2014, the Company's subsidiary, TerraCity Lawrence, LLC (Note 8) entered into a loan agreement with a third party whereby it borrowed US $100,000 and agreed to pay US$120,000 on February 17, 2015 (of which the $26,218 (US$20,000) arrangement fee was recorded as an interest expense during the year ended February 28, 2017). During the year ended February 28, 2017, the Company repaid $98,475 (US$75,000) of the note and during the period ended May 31, 2017, the Company repaid $32,286 (US$25,000). The Company is currently in default on this payment and as at May 31, 2017 the Company owed $26,939 (US$20,000).

12. Mortgage Payable

During the year ended February 28, 2017, the Company acquired three parcels of land in Florida for future development of cannabis crops. The consideration paid totaling $1,015,547 represents the assumption of the mortgages outstanding on these parcels of land at the time of acquisition of $851,885, the commitment to issue shares in connection of the acquisition valued at $58,750 (issued subsequent to May 31, 2017) and a finder's fee on the acquisition of land of $104,912 (paid).

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 (the "license") it has the right to return the property to the vendor which 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.

12. Mortgage Payable (continued)

If the Company is unable to obtain the license, 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 connection with the purchase of the property, the Company is obligated to issue 1,000,000 common shares to a private company, of which 250,000 shares are to be immediately earned in full as a finders' fee. Accordingly, the Company recorded a transaction cost of $58,750 as its commitment to issue shares as at February 28, 2017 (issued subsequent to the period ended May 31, 2017). The remaining 750,000 common shares will be held in escrow on behalf of the finder and is not to be considered fully earned until the earliest of the date which the Company obtains the licenses or the date that the deadline expires without the vendor having take back the three parcels of land. As at May 31, 2017 the Company does not have an obligation to issue the common shares as the license has not been obtained and the deadline has not expired. The Company also paid $104,912 (US $80,000) as finder's fees in connection to the acquisition of the land.

The mortgages bear interest at 4.5% per annum and have maturity dates through to May 2, 2029. The mortgage payments are made through receiving rental income and during the period ended May 31, 2017, the Company recognized $25,472 of rental income which were applied to the mortgages.

As at May 31, 2017, the current portion of mortgage payable was $58,293.

13. Share Capital

Authorized: Unlimited number of common shares without par value

Share transactions for the period ended May 31, 2017:

(a) Received proceeds of $50,000 from exercise of 500,000 warrants.

(b) Closed a non-brokered private placement for 7,671,016 units (the "Units") 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). 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.

(c) Issued 5,000,000 common shares valued at $2,150,000 to a third party as a finder's fee for a California Extraction License. In connection with the project, the Company paid a total of $619,983 (US$464,040) in relation to project management fees and for the purchase of equipment.

(d) Issued 750,000 common shares valued at $25,500 to the Chief Executive Officer of the Company for management compensation (Note 17(b)).

(e) Issued 250,000 common shares to the Company's members on its Cannabis Advisory Board valued at $107,500.

Share transactions for the year ended February 28, 2017:

(a) On May 25, 2016, the Company issued 14,976,580 common shares with a value of $823,712 and 1,497,658 common shares with a value of $82,371 pursuant to the asset purchase agreement dated May 19, 2016 (Note 8).

13. Share Capital (continued)

(b) On August 3, 2016, the Company issued 1,200,000 units with a value of $84,000 to settle debt of $60,000 owed a company controlled by a former director of the Company and a company of which the Chief Financial Officer is a partner. This resulted in a loss on settlement of debt of $24,000. Each unit consists of one common share and one share purchase warrant exercisable at $0.10 per share expiring on February 3, 2018.

(c) On August 15, 2016, the Company issued 4,110,000 units for proceeds of $205,500. Each Unit consists of one common share and one share purchase warrant (a “Warrant”). Each Warrant will entitle the holder to purchase one additional common share at an exercise price $0.10 per share for 18 months.

(d) On September 21, 2016, the Company issued 100,000 common shares valued at $14,000 pursuant to a consulting services agreement with a third party.

(e) On October 14, 2016, the Company issued 12,000,000 common shares valued at $2,580,000 to acquire an App Portfolio. The App Portfolio was valued at $119,000 and the Company recorded $2,461,000 in Goodwill. Pursuant to the agreement, the Company issued 3,000,000 common shares as prepaid consulting fees in connection with the acquisition of the App Portfolio valued at $645,000.

(f) On November 18, 2016, the Company issued 1,000,000 common shares valued at $395,000 pursuant to a consulting agreement with a third party for services rendered during the year.

(g) On January 11, 2017, the Company issued 1,180,000 units for proceeds of $295,000. Each Unit consists of one common share and one-half share purchase warrant. Each whole warrant will entitle the holder to purchase one additional common share at an exercise price of $0.35 per share for a period of one year. The Company paid share issuance costs of $21,200 and issued 68,400 broker’s warrants (exercisable at $0.35 for one year) expiring January 11, 2018 valued at $14,359 associated with the private placement.

(h) On January 20, 2017, the Company issued 1,021,596 units for proceeds of $255,399. Each Unit consists of one common share and one-half share purchase warrant. Each whole Warrant will entitle the holder to purchase one additional common share at an exercise price of $0.35 per share for a period of one year. The Company paid share issuance costs of $17,284 and issued 66,848 broker’s warrants (exercisable at $0.35 for one year) expiring January 20, 2018 valued at $10,428 associated with the private placement.

(i) During the year ended February 28, 2017, the Company received proceeds of $664,207 from subscription of shares.

(j) During the year ended February 28, 2017, the Company issued 14,600,000 common shares for proceeds of $1,915,000 related to the exercise of warrants.

(k) During the year ended February 28, 2017, the Company issued 2,400,000 common shares for proceeds of $834,000 related to exercise of stock options.

(Expressed in Canadian dollars)

14. Share Purchase Warrants and Stock Options

The following table summarizes the continuity of share purchase warrants:

| | Number of Warrants | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, February 29, 2016 | 13,000,000 | 0.14 |
| Issued | 6,562,446 | 0.15 |
| Exercised | (14,600,000) | 0.13 |
| Expired | (3,000,000) | 0.12 |
| Balance, February 28, 2017 | 1,962,446 | 0.26 |
| Issued | 4,243,675 | 0.37 |
| Exercised | (500,000) | 0.10 |
| Balance, May 31, 2017 | 5,706,121 | 0.36 |

As at May 31, 2017, the following share purchase warrants were outstanding:

| Number of warrants outstanding | Exercise price $ | Expiry date |
|---|---|---|
| 590,000 | 0.35 | January 11, 2018 |
| 84,800 | 0.35 | January 11, 2018 (Broker's warrants) |
| 510,798 | 0.35 | January 20, 2018 |
| 66,848 | 0.35 | January 20, 2018 (Broker's warrants) |
| 210,000 | 0.10 | February 18, 2018 |
| 3,835,507 | 0.37 | March 7, 2018 |
| 408,168 | 0.37 | March 7, 2018 (Broker's warrants) |
| 5,706,121 | | |

(Expressed in Canadian dollars)

14. Share Purchase Warrants and Stock Options (continued)

The weighted average remaining life of the warrants was 0.60 years.

The fair value of all broker's warrants is estimated on the grant date using the Black-Scholes pricing model. The weighted average assumptions used in calculating the fair values are as follows:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | 0.79% | - |
| Expected life of warrant | 1.00 year | - |
| Expected dividend yield | 0% | - |
| Expected stock price volatility | 146.14% | - |
| Fair value | $0.24 | - |

The Company has an incentive stock option plan in place under which it is authorized to grant 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 option shall not be less than the market price of the Company's stock on the grant date. The option period shall be a period of time fixed by the Board not to exceed the maximum term permitted by the Exchange. The options granted vest at the discretion of the Board.

The Company recognized $277,583 (2016 - $nil) in share-based compensation expense during the period ended May 31, 2017. The Company also issued 5,000,000 common shares valued at $2,150,000 to a third party as a finder's fee for a California Extraction License which was recorded to share-based compensation.

The following table summarizes the continuity of stock options:

| | Number of Options | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, February 29, 2016 | - | - |
| Issued | 5,300,000 | 0.33 |
| Exercised | (2,400,000) | 0.35 |
| Balance, February 28, 2017 | 2,900,000 | 0.31 |
| Issued | 1,000,000 | 0.32 |
| Balance, May 31, 2017 | 3,900,000 | 0.31 |

As at May 31, 2017, the following stock options were outstanding:

| Number of options outstanding and exercisable | Exercise price $ | Expiry date |
|---|---|---|
| 2,900,000 | 0.31 | October 7, 2021 |
| 500,000 | 0.42 | March 8, 2022 |
| 500,000 | 0.22 | March 22, 2022 |
| 3,900,000 | | |

(Expressed in Canadian dollars)

14. Share Purchase Warrants and Stock Options (continued)

The fair value of all compensatory options granted is estimated on the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in calculating the fair values are as follows:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | 1.13% | - |
| Expected life of option | 5.00 years | - |
| Expected dividend yield | 0% | - |
| Expected stock price volatility | 159.45% | - |
| Fair value per option | $0.28 | - |

The weighted average remaining life of the stock options was 4.49 years.

15. 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 makes adjustments to 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 strength of the LED lighting and vertical farming markets, 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 period ended May 31, 2017. The Company is not subject to any external capital requirements.

16. Financial Instruments

Financial assets and liabilities measured at fair value are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

Level 1- Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Values based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Values based on prices or valuation techniques that are not based on observable market data.

16. Financial Instruments (continued)

The fair value of cash is measured at Level 1 of the fair value hierarchy. The fair value of receivables, accounts payable and accrued liabilities, note payable, and amounts due to related parties approximates fair value due to the short term nature of the financial instruments. The Company classified its receivables as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, note payable, due to related parties and mortgage payable are classified as other financial liabilities, which are measured at amortized cost.

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.

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

Foreign Exchange 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.

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.

Interest Rate Risk

Interest rate risk mainly arises from the Company's cash, which receives interest based on market interest rates. Mortgage payable bears a fixed interest rate of 4.5%. Fluctuations in interest cash flows due to changes in market interest rates are negligible.

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 90 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.

17. Commitments

a) On November 1, 2015, the Company entered into a consulting agreement with a non-related party for a period of one year to which the Company is to pay annual consulting fees of $100,000 plus GST as well as issue 140,000 common shares in three installments as follows: 50,000 upon signing (issued), 50,000 on March 1, 2016 (not issued), and 40,000 on July 1, 2016 (not issued). In addition, the Company has agreed to issue bonus shares as follows:

- 100,000 common shares if the Company reaches $500,000 of sales within six months
- 250,000 common shares if the Company reaches $1,000,000 of sales within a year
- 500,000 common shares if the Company reaches $2,000,000 of sales within a year
- 2,000,000 common shares if the Company reaches $10,000,000 of sales within a year

During the year ended February 28, 2017, both parties agreed to a mutual release for a settlement payment of $21,600 which was paid during the year ended February 28, 2017.

17. Commitments (continued)

b) In May 2016, the Company entered into a management contract with the Chief Executive Officer ("CEO") of the Company. As per the agreement, the Company is required to issue the CEO 1,500,000 common shares of the Company effective on the date of the agreement. During the year ended February 28, 2017, the Company had not fulfilled this obligation and a commitment to issue shares for $51,000 was recorded. During the period ended May 31, 2017, 750,000 of the shares were issued with a fair value of $0.034.

   Subject to the terms of the agreement, if the contract is terminated without cause, the officer will be entitled to cash severance of US $180,000 plus an advance for one year's rent on the officers' current apartment.

c) In June 2016, the Company entered into an agreement with CBO Financial Inc. ("CBO") whereby CBO will assist the Company in securing "New Market Tax Credits" of up to $6,000,000. A director of the Company is the Chief Executive Officer of CBO. In connection with their services, CBO will be paid a closing fee equal to 6% of the credit and in addition will incur on going management fees equal to 0.5% of the credit for 7 years.

   In February 2017, the Company entered into a project management agreement with CBO in connection with the proposed Baltimore project. In connection with the agreement, the Company will pay CBO US$140,000. As at February 28, 2017, the Company had incurred $27,540 (US$21,000) in consulting expenses. During the period ended May 31, 2017, an additional $83,540 (US$63,000) was paid. The remaining US$56,000 is due within the next fiscal year.

d) In November 2016, the Company entered into a consulting agreement with Core Capital Partners Inc. ("Core Capital") for a term of one year. The Company may terminate the agreement by giving 6 months' written notice. As at May 31, 2017, the Company had a commitment of $60,000 in connection with the agreement.

e) In February 2017, the Company completed a property transfer agreement to acquire three plots of land in Florida (Note 7). In connection with the transaction, the Company has an obligation to issue 250,000 common shares as a finders' fee ("Finders' Shares") (issued subsequent to period end valued at $58,750 and an additional 750,000 common shares should the Company be successful in obtaining a license to cultivate cannabis.

f) Mortgage payments

   In connection with the mortgage payable outlined in Note 12, the Company is obligated to make monthly mortgage payments of $7,838 (US$6,029). Annual mortgage payments for the next five years total $94,053 (US$72,348).

(Expressed in Canadian dollars)

18. Segmented Information

The Company has two 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; and (b) the sale of apps and related advertising on IOS and Android platforms globally. Capital assets are located primarily in the United States.

Revenues by product line are as follows:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| LED lighting | $ | 40,905 | $ | 24,181 |
| App portfolios | | 44,649 | | - |
| | $ | 85,554 | $ | 24,181 |

19. Contingencies

The Company is involved in various claims and legal actions in the ordinary course of business. The claims were initiated by the Company's previous landlord and lender. As at May 31, 2017 and February 28, 2017, the Company recorded a litigation provision of $190,000 in connection with the claims.