CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Liberty Health Sciences Inc.

FOR THE YEAR ENDED FEBRUARY 29, 2020

(in Canadian Dollars)

Liberty Health Sciences Inc.

Consolidated Financial Statements
February 29, 2020

Table of contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Liberty Health Sciences Inc.

Opinion

We have audited the accompanying consolidated financial statements of Liberty Health Sciences Inc. (the "Company"), which comprise the consolidated statement of financial position as at February 29, 2020, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at February 29, 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis of Opinion

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

Other Matter

The consolidated financial statements of the Company as at and for the year ended February 28, 2019 were audited by another auditor who expressed an unmodified opinion on those statements on July 1, 2019.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis ("MD&A"), but does not include the consolidated financial statements and our auditors' report thereon.

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

In connection with our 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be misstated.

We obtained the MD&A prior to the date of this auditors' report. If based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. 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 consolidated financial statements in accordance with IFRS, 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 consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or 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 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 auditors' report to the related disclosures in the financial statements or, if such disclosure is inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the 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 auditors' report is Ahmad Aslam, CPA, CA.

Zeifmans LLP

Toronto, Ontario
June 25, 2020

Chartered Professional Accountants
Licensed Public Accountants

Liberty Health Sciences Inc.

Consolidated Statements of Financial Position
As at February 29, 2020 and February 28, 2019
(in Canadian dollars)

	Note		2020		2019
Assets					
Current assets					
Cash and cash equivalents		**$**	**24,957,245**	$	13,291,426
Inventory	**5**		**37,524,091**		15,143,740
Biological assets	**6**		**6,095,296**		1,089,990
Other receivables			**113,483**		1,123,432
Prepaid assets			**1,300,375**		862,090
Total current assets		**$**	**69,990,490**	$	31,510,678
Non-current assets					
Deposits			**789,024**		480,004
Investments	**7**		**1,580,120**		3,366,521
Investment in joint ventures	**8**		**-**		240,193
Property, plant and equipment	**9**		**73,329,320**		56,282,086
Intangible assets	**10**		**46,823,488**		46,031,663
Total non-current assets			**122,521,952**		106,400,467
Total assets		**$**	**192,512,442**	$	137,911,145
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		**$**	**6,593,940**	$	9,505,264
Income taxes payable	**22**		**9,336,972**	$	-
Convertible notes payable	**11**		**5,788,319**		11,124,391
Embedded derivative	**11**		**66,545**		2,586,646
Current portion of lease liability	**12**		**3,682,031**		-
Total current liabilities		**$**	**25,467,807**	$	23,216,301
Non-current liabilities					
Deferred tax liability	**22**		**9,728,717**		1,424,717
Lease liability	**12**		**17,680,318**		-
Total non-current liabilities			**27,409,035**		1,424,717
Total liabilities		**$**	**52,876,842**	$	24,641,018
Shareholders’ equity					
Share capital	**13**	**$**	**146,047,450**	$	145,242,352
Warrant reserve	**14**		**9,355,242**		9,355,242
Contributed surplus	**15**		**9,867,787**		8,962,134
Accumulated other comprehensive income			**3,482,959**		371,522
Deficit			**(29,117,838)**		(50,661,123)
Total shareholders' equity		**$**	**139,635,600**	$	113,270,127
Total liabilities and shareholders' equity		**$**	**192,512,442**	$	137,911,145

Approved on behalf of the Board:

"William Pfeiffer"
Signed: Chair of the Board and Director

"Victor Mancebo"
Signed: CEO & Director

Liberty Health Sciences Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the years ended February 29, 2020 and February 28, 2019

(in Canadian dollars)

	Note	For the year ended February 29, 2020	February 28, 2019
Revenue, net of discounts	**20**	**$ 50,075,579**	$ 10,002,538
Cost of sales			
Cost of goods sold, net	**21**	**19,904,219**	2,339,093
Gross profit before fair value adjustments		**$ 30,171,360**	$ 7,663,445
Realized fair value amounts included in the cost of inventory sold		**(358,083)**	(2,424,085)
Unrealized gains resulting from fair value changes on growth of biological assets	**6**	**27,796,004**	8,739,664
Gross profit		**$ 57,609,281**	$ 13,979,024
Operating expenses			
Professional fees		**4,988,586**	3,474,380
Employee and staff costs		**3,195,404**	3,763,525
Office and general		**2,235,074**	1,582,560
Consulting fees		**358,834**	85,503
Travel and entertainment		**255,316**	794,360
Advertising and marketing		**789,246**	2,312,657
Insurance		**1,003,786**	799,278
Selling costs		**6,690,137**	2,109,280
Facilities expense and leases		**478,855**	2,022,068
Royalty		**802,001**	466,554
Depreciation	**9**	**3,047,179**	375,977
Amortization	**10**	**126,699**	1,296,431
Share-based compensation	**15**	**1,212,883**	6,505,465
Total operating expenses		**$ 25,184,000**	$ 25,588,038
Non-operating income (expense)			
Gain on sale of Chestnut Hill Tree Farm	**4**	**14,266,807**	-
Change in fair value of investments	**7**	**(1,809,630)**	998,687
Interest expense	**11, 12**	**(4,289,767)**	(605,499)
Loss on investment in joint ventures	**8**	**(166,916)**	(578,362)
Application costs		**-**	(290,409)
Transaction costs		**-**	(597,806)
Investor relations and filing fees		**(232,248)**	(1,082,865)
Loss on settlement of liability		**-**	(1,493,799)
Provision on promissory note		**-**	(2,999,122)
Impairment of intangible asset		**-**	(2,463,469)
Interest accretion	**11**	**(2,477,875)**	(719,871)
Change in fair value of embedded derivative	**11**	**2,538,047**	344,286
Foreign currency translation loss		**(435,956)**	(40,182)
Other		**89,552**	(109,504)
Total other non-operating items		**$ 7,482,014**	$ (9,637,915)
Net Income (loss) before income tax		**$ 39,907,295**	$ (21,246,929)
Current income tax	**22**	**9,336,972**	-
Deferred income tax	**22**	**8,304,001**	1,046,886
Total income tax		**$ 17,640,973**	$ 1,046,886
Net income (loss)		**$ 22,266,322**	$ (22,293,815)
Other comprehensive income (loss)			
Foreign currency translation gain		**3,111,437**	2,821,252
Net comprehensive income (loss)		**$ 25,377,759**	$ (19,472,563)
Earnings (loss) per share – Basic	**23**	**$ 0.06**	$ (0.07)
Earnings (loss) per share – Diluted	**23**	**$ 0.06**	$ (0.07)

Liberty Health Sciences Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended February 29, 2020 and February 28, 2019

(in Canadian dollars)

	Note	Number of common shares	Share capital	Warrant reserve	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
Balance as at February 28, 2018		303,358,348	$ 113,321,501	$ 5,002,063	$ 2,456,669	$ (2,449,730)	$ (28,367,308)	$ 89,963,195
Bought deal - cash, net of issuance costs	**14**	25,555,875	15,518,617	5,791,272	-	-	-	21,309,889
Share issuance - debt settlement	**14**	10,092,583	9,386,102	-	-	-	-	9,386,102
Exercise of warrants		6,283,829	7,016,132	(1,438,093)	-	-	-	5,578,039
Share-based compensation	**15**	-	-	-	6,505,465	-	-	6,505,465
Net comprehensive loss for the year		-	-	-	-	2,821,252	(22,293,815)	(19,472,563)
Balance as at February 28, 2019		345,290,635	$ 145,242,352	$ 9,355,242	$ 8,962,134	$ 371,522	$ (50,661,123)	$ 113,270,127
Impact of change in accounting policy	**3, 12**	-	-	-	-	-	(723,037)	(723,037)
		345,290,635	145,242,352	9,355,242	8,962,134	371,522	(51,384,160)	112,547,090
Share-based compensation	**15**	-	-	-	1,212,883	-	-	1,212,883
Exercise of stock options		800,000	805,098	-	(307,230)	-	-	497,868
Net comprehensive income for the year		-	-	-	-	3,111,437	22,266,322	25,377,759
Balance as at February 29, 2020		**346,090,635**	**$ 146,047,450**	**$ 9,355,242**	**$ 9,867,787**	**$ 3,482,959**	**$ (29,117,838)**	**$ 139,635,600**

Liberty Health Sciences Inc.

Consolidated Statements of Cash Flows
For the years ended February 29, 2020 and February 28, 2019
(in Canadian dollars)

	Note	For the year ended February 29, 2020	For the year ended February 28, 2019
Operating activities			
Net income (loss)		**$ 22,266,322**	$ (22,293,815)
Adjustments for:			
Depreciation	**9**	**7,770,628**	1,412,748
Amortization	**10**	**126,699**	1,296,431
Fair value amounts included in the cost of inventory sold	**6**	**(14,889,062)**	(7,137,107)
Fair value changes on growth of biological assets	**6**	**(4,167,278)**	(290,886)
Share-based compensation	**15**	**1,212,883**	6,505,465
Accretion expense	**11**	**2,477,875**	719,871
Interest expense	**11**	**4,289,767**	605,499
Change in fair value of embedded derivative	**11**	**(2,538,047)**	(344,286)
Provision on investment		**-**	2,999,122
Impairment of intangible asset		**-**	2,463,469
Change in fair value of investments	**7**	**1,809,630**	(998,687)
Deferred income tax	**22**	**8,304,001**	1,046,886
Gain on sale of Chestnut Hill Tree Farm	**4**	**(14,266,807)**	-
Gain on disposal of assets	**9**	**304,082**	344,063
Loss on redemption of joint venture	**8**	**166,916**	578,362
Loss on settlement of liability		**-**	1,493,799
		$ 12,867,609	(11,599,066)
Changes in operating assets and liabilities			
Inventory		**(6,978,541)**	(6,671,851)
Biological assets		**(752,303)**	(16,678)
Prepaid expenses and other current assets		**571,664**	(1,363,118)
Security deposits		**(309,020)**	1,724,815
Accounts payable and accrued liabilities		**(2,820,874)**	3,695,447
Income taxes payable		**9,336,972**	(56,272)
		$ 11,915,507	(14,286,723)
Investing activities			
Purchase of property, plant & equipment and intangible assets	**9, 10**	**(8,252,504)**	(21,128,017)
Proceeds on sale of Chestnut Hill Tree Farm	**4**	**19,150,137**	-
Cash received from acquisitions		**-**	108,414
Purchase and sale of Investments, net		**17,854**	(1,196,390)
Proceeds received from dissolution of joint venture	**8**	**132,360**	-
Contributions to joint venture	**8**	**(142,427)**	-
Issuance of promissory note		**-**	(2,948,792)
		$ 10,905,420	(25,164,785)
Financing activities			
Issuance of common shares, net of issuance costs	**13**	**-**	21,309,890
Proceeds on exercise of stock options	**15**	**497,868**	-
Lease payments	**12**	**(2,539,040)**	-
Interest on convertible debt		**(1,750,727)**	(1,064,448)
Convertible debt paydown		**(7,876,251)**	-
Proceeds on exercise of warrants		**-**	5,578,038
Repayment of finance lease	**12**	**-**	(61,540)
		$ (11,668,150)	25,761,940
Effect of exchange rate changes		**513,042**	835,615
Net increase (decrease) in cash and cash equivalents		**11,665,819**	(12,853,953)
Cash and cash equivalents, beginning of year		**13,291,426**	26,145,379
Cash and cash equivalents, end of year		**$ 24,957,245**	$ 13,291,426

The accompanying notes are an integral part of these financial statements

1. Nature of operations

Liberty Health Sciences Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia) on November 9, 2011 as SecureCom Mobile Inc. ("SecureCom"). The head and registered office of the Company is located at 18770 N CR 225 Gainesville, FL 32609. The Company's common shares are listed on the Canadian Securities Exchange under the trading symbol "LHS" and on the OTCQX under the trading symbol "LHSIF".

The Company's principal business activity is the production and distribution of medical cannabis through its wholly owned subsidiary DFMMJ Investments, LLC ("DFMMJ") (doing business as Liberty Health Sciences Florida).

These consolidated annual financial statements were approved by the Company's Board of Directors on June 25, 2020.

2. Basis of presentation

(a) Statement of compliance

The Company's consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC") as at June 25, 2020.

(b) Basis of measurement

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

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

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency, unless otherwise indicated.

The Company's functional currency, as determined by management, is the Canadian dollar. Management has determined that the functional currency of its Canadian subsidiary is the Canadian dollar, and that the functional currency of its US subsidiaries is the US dollar.

(d) Use of estimates and judgements

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

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

Biological assets and Inventory

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

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

Estimated useful lives, residual values, impairment considerations and amortization of property, plant and equipment and intangible assets

Depreciation of property, plant and equipment and amortization of intangible assets is dependent upon estimates of useful lives and residual values based on management's judgment.

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

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

Share-based compensation and warrants

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

Taxes

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

Expected credit losses

The Company measures expected credit losses in accordance with IFRS 9: *Financial instruments*. Under this approach, the Company estimates an allowance at an amount equal to twelve months of expected losses and the lifetime expected credit losses of financial instruments. In the case of an expected credit loss, the Company creates an impairment.

Derivative liabilities

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

Financial instruments

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

The fair value of investments may be adjusted if:

1. There has been a significant subsequent equity financing provided by outside investors at a valuation different than the current value of the investee company, in which case the fair value of the investment is set to the value at which that financing took place.
2. There have been significant corporate, political or operating events affecting the investee company that, in management's opinion, have a material impact on the investee company's prospects and therefore its fair value.
3. The investee company is placed into receivership or bankruptcy.

4. Based on financial information received from the investee company, it is apparent to the Company that the investee company is unlikely to be able to continue as a going concern.
5. The investee company makes important positive/negative management changes that the Company's management believes will have a positive/negative impact on the investee company's ability to achieve its objectives and build value for shareholders.

CGU Determination

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

Discount Rate for Leases

IFRS 16: *Leases* requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Company generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of the underlying assets, and the initial direct costs incurred by the lessor related to the leased asset are not available. The Company determines the incremental borrowing rate as the interest rate the Company would pay to borrow, over a similar term, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

(e) Comparative figures

Comparative amounts for changes in biological assets and inventory in the consolidated statements of income (loss) and comprehensive income (loss) and cash flows have been restated. The impact on net income (loss) and comprehensive income (loss) and net cash flow from operating activities is nil. The comparative amounts for changes in biological assets and inventory were restated to comply with the presentation adopted for the current year.

3. Significant accounting policies

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

(a) Revenue recognition

The Company uses the following process for revenue recognition:

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

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

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

The Company recognizes revenue from dispensary customers and delivery customers.

(b) Cash and cash equivalents

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

(c) Inventory

Inventories of harvested cannabis are transferred from biological assets into inventory at their fair value at harvest less costs to sell, which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, utilities, packaging supplies, facilities costs, quality and testing costs, and production related depreciation. Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less estimated costs to sell. Supplies and consumables are valued at lower of cost and net realizable value, which costs are determined on an average cost basis.

(d) Biological assets

The Company's biological assets consist of medical cannabis plants. The Company capitalizes all direct and indirect costs, as incurred, related to the transformation of the biological assets between the point of initial recognition and the point of harvest, including labour related costs, grow consumables, materials, utilities, and facilities costs including an allocation of overhead costs related to depreciation on the production facility and equipment. The Company then measures the biological assets at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of internally produced work in progress and finished goods inventories after harvest. Unrealized gains or losses arising from changes in fair value less costs to sell are included in the net income (loss) and comprehensive income (loss) of the related period. Costs to sell includes post harvest production costs and fulfilment costs.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the asset to a working condition for the intended use and borrowing costs on qualifying assets. During their construction, items of property, plant and equipment are classified as assets under construction. When the asset is available for use, it is transferred from assets under construction to the appropriate category of property, plant and equipment and depreciation on the item at that point starts. The cost of repairs and maintenance is expensed as incurred. Subsequent costs are included in the asset 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.

Depreciation is not recognized until the asset is determined to be ready for use. Depreciation is calculated using the following terms and methods:

Asset type	Depreciation method	Depreciation term
Land	Not depreciated	No term
Greenhouse infrastructure	Straight-line	15 years
Vehicles	Straight-line	5 years
Furniture & office equipment	Straight-line	5 years
Computers	Straight-line	3 years
Leasehold improvements	Straight-line	Over lease term
Right of use asset	Straight-line	Over lease term
Construction in progress	Not depreciated	No term

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

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

(f) Intangible assets

Intangible assets are comprised of software and purchased licenses and permits. All are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Amortization of software is recorded on a straight-line basis over the estimated useful life of three (3) years. There is no amortization of the licenses and permits which have an indefinite life.

(g) Impairment of non-financial assets

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

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

(h) Income taxes

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

Deferred tax assets and liabilities and the related deferred income tax expense or recovery are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

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

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

(i) Earnings (loss) per share, basic and diluted

The Company presents basic and diluted earnings per share. Basic earnings (loss) per share is calculated by dividing the profit or loss attributable to shareholder by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of shares outstanding during the period for the effects of all potential dilutive shares, which comprise warrants, options and convertible debt. The calculation of diluted earnings per share assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted earnings per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

(j) Share-based compensation

The Company has a stock option plan in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of income (loss) and comprehensive income (loss) such that the cumulative expense reflects the revised estimate.

(k) Investment in joint arrangements

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

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

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

(l) Investments and other financial assets

(i) Classification

Financial assets are classified into two categories based on measurement:

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

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

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

Debt instruments

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

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

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

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

Equity instruments

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

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

(iv) Impairment

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

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

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

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

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

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

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

(m) Financial liabilities

Financial assets are classified into two categories based on measurement:

- amortized cost; and
- measurement at FVTPL.

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

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

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

(n) Embedded derivatives

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

(o) Classification and measurement of financial instruments

All financial instruments are initially measured at fair value, plus or minus transaction costs in case of financial instruments classified as amortized cost or fair value through other comprehensive income, FVTOCI.

Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI).

Debt instruments are measured at amortised cost (net of any write down for impairment) unless is designated at FVTPL under the fair value option.

Balance Sheet Classification	Classification
Cash and cash equivalents	FVTPL
Investments	FVTPL
Other receivables	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible notes payable	Amortized cost
Embedded derivative	FVTPL

(p) Borrowing costs

The Company capitalizes borrowing costs directly attributable to the acquisition, construction, and production of assets into the cost of the assets. Borrowing costs not directly attributable to an asset are included as expenses.

(q) Warrants

The warrants reserve records the grant date fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to contributed surplus.

(r) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(s) Leases

The Company does not recognize and measure a lease for short-term leases and leases for which the underlying asset is of low value when new. Such lease payments are expensed on a straight-line basis over the term of the lease.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease, if fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Assets held under leases are recognized as assets of the Company at the present value of the minimum lease payments and are amortized on a straight-line basis over the term of the lease. The corresponding liability is recognized as a lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation to achieve a constant rate of interest on the remaining liability.

(t) Basis of consolidation

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

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

Liberty Health Sciences Inc. owns 100% of the share capital of Liberty Health Sciences USA Ltd, which owns 100% of the share capital of DFMMJ and 242 Cannabis, LLC. There is no Non-Controlling Interest to be reported as a result.

Entity Name	Jurisdiction of Incorporation	Method of Consolidation
Liberty Health Sciences USA Ltd.	British Columbia, Canada	Fully Consolidated
DFMMJ Investments, LLC (d/b/a Liberty Health Sciences Florida	Florida, USA	Fully Consolidated
242 Cannabis, LLC	Florida, USA	Fully Consolidated

(u) Foreign currency translation

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

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Canadian dollars at the foreign exchange rate applicable as at that date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

The assets and liabilities of foreign operations are translated into Canadian dollars at period-end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars using average exchange rates. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income (loss) and accumulated in shareholders' equity.

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

(v) New standards adopted

The Company implemented the following standard effective March 1, 2019:

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

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

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

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

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

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

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

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

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

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

• assumed an incremental borrowing rate of 15%-16%, determined on corresponding remaining term.

As a result of the initial application of IFRS 16 as at March 1, 2019, Management recognized $14,008,700 of right-of-use assets and $14,697,378 of lease liabilities on its consolidated statements of financial position, with the difference recorded in opening retained earnings. The right-of-use assets are amortized over the life of the corresponding leases.

(In Canadian dollars, unless otherwise noted)

4. Sale of Chestnut Hill Tree Farm and redemption of Ohio JV

On August 13, 2019, the Company entered into an agreement to sell its Chestnut Hill Tree Farm ("CHT") facility in Florida and certain joint venture interest and dispensary licenses in Ohio for cash consideration totaling USD$14,750,000 ($19,523,100) (the "Disposition"), of which USD$14,650,000 ($19,390,740) corresponded to the CHT Farm facility and USD$100,000 ($132,360) to the Investment in Ohio JV (see Note 8). Pursuant to this sale, the Company recognized a gain on sale of the CHT facility of $14,266,807. The following summarizes the gain on the sale of CHT:

Property, plant and equipment	$	5,536,871
Accumulated depreciation		(653,541)
Total assets, net		4,883,330
Proceeds on disposition, gross		19,390,740
Transaction costs		(240,603)
Proceeds on disposition, net		19,150,137
Net gain on sale	**$**	**14,266,807**

The total loss on investment in Ohio JV for the year ended February 29, 2020 was $166,916, and is discussed in Note 8.

5. Inventory

Finished goods inventory consists of concentrates and other products that are complete and available for sale (both internally generated inventory and third-party products purchased in the wholesale market). Work in process inventory consists of cannabis after harvest in the processing stage. Packaging and miscellaneous consists of consumables for use in the transformation of biological assets and other inventory used in production of finished goods. The Company's inventories are comprised of:

		February 29, 2020		February 28, 2019
Raw materials				
Harvested cannabis	$	28,449,305	$	829,689
Packaging and miscellaneous		1,085,005		444,116
Total raw materials	$	29,534,310	$	1,273,805
Work-in-process		3,073,140		12,691,530
Finished goods		4,916,641		1,178,405
Total inventories	**$**	**37,524,091**	$	15,143,740

Biological assets included in inventory are subject to the assumptions listed in the Biological Assets note.

(In Canadian dollars, unless otherwise noted)

6. Biological assets

Biological assets are comprised of:

		Amount
Balance as at February 28, 2018	$	743,896
Costs incurred until harvest		4,457,045
Effect of changes in fair value of biological assets		7,927,258
Transferred to inventory upon harvest		(12,038,209)
Balance as at February 28, 2019	$	1,089,990
Costs incurred until harvest		5,044,532
Effect of changes in fair value of biological assets		43,281,125
Transferred to inventory upon harvest		(43,406,076)
Effect of foreign exchange		85,725
Balance as at February 29, 2020	**$**	**6,095,296**

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

Determination of the fair values of the biological assets requires the Company to make various estimates and assumptions. The fair value of biological assets is considered a Level 3 categorization in the IFRS fair value hierarchy. The significant estimates and inputs used to assess the fair value of biological assets include the following assumptions as at February 29, 2020 and February 28, 2019:

(a) Selling prices – selling prices are based on the Company's average selling price per gram for cannabis flower. Estimated selling prices averaged $10.18, and $10.54 for cannabis flower for the year ended February 29, 2020, and for the year ended February 28, 2019, respectively.

(b) The stage of plant growth – represents the weighted average number of days out of the 100-day growing cycle that biological assets have reached as at the measurement date. The estimated stage of growth of cannabis plants as at February 29, 2020 averaged 48%, and as at February 28, 2019 it averaged 38%.

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

(d) Yield by plant – represents the expected number of grams of finished cannabis inventory which are expected to be obtained from each harvested cannabis plant. The average dried weight yield of whole flower used is 52 dry grams per plant for the year ended February 29, 2020 and 46 dry grams per plant for the year ended February 28, 2019.

These estimates are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. The following table presents the effect of a 10% change in the following inputs used in the fair value model on the valuation of biological assets as at February 29, 2020 and February 28, 2019.

(In Canadian dollars, unless otherwise noted)

Assumption	10% change as at February 29, 2020	10% change as at February 28, 2019
Estimated Selling Price	$1,235,911	$280,172
Expected stages of growth	$610,722	103,138
Expected yields for cannabis plants	$609,530	111,966
After harvest cost to complete and sell	$626,381	$163,047

The correlation between the inputs and fair value of the biological assets is as follows:

- If the average estimated selling price were higher (lower), the estimated fair value would increase (decrease).
- If the expected stage of growth was higher (lower), the estimated fair value would increase (decrease).
- If the average yield for cannabis plants was higher (lower), the estimated fair value would increase (decrease).
- If the after harvest cost to complete and sell was lower (higher), the estimated fair value would increase (decrease).

7. Investments

In April 2018, the Company acquired 150,000 shares of Promedia Investments Inc. for US$150,000 ($196,390). The fair value for this investment as at February 29, 2020 was $nil ($197,535 as at February 28, 2019). Accordingly, the Company recognized a loss of $197,535 for the year ended February 29, 2020.

In April 2018, the Company acquired 1,369,863 units of Isodiol International Inc. ("Isodiol") for $1,000,000. Each unit was comprised of one common share of Isodiol and one warrant to purchase one common share purchase of Isodiol, exercisable at a price of $1.00 per warrant until April 17th, 2021. At July 23, 2018, Isodiol enacted a reverse stock split at a ratio of one post-consolidated common share to ten pre-consolidated common shares and modifying the strike price of the common share purchase warrants to $10.00.

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

On November 18, 2019, the Company sold its remaining investment in Isodiol for $17,854. Related to its investment in Isodiol, the Company recognized a loss of $210,724 for the year ended February 29, 2020.

In 2018, the Company acquired 49,213 preferred shares of Weekend Holdings Corp. ("Weekend"), for US$250,000 ($325,003), the parent company of Green Tank Holdings. Weekend undertook a 12:1 share split as part of their Series A capital raising which was closed in March 2019. During the year ended February 28, 2019, due to meeting certain commercial activity thresholds, the Company was entitled to receive an additional 281,640 shares at no cost. These shares were included as additional shares received amounting to $949,910. As such, the Company determined the fair value of its investment, based on the most recent financing (US$2.56 per share), at February 28, 2019 was US$2,232,767 ($2,940,408). The Company recognized a gain from the change in fair value of $2,611,106 resulting from the higher valuation in the financing round and the additional shares granted, and a gain of $9,077 resulting from the effect of foreign exchange for the year ended February 28, 2019.

(In Canadian dollars, unless otherwise noted)

For the year ended February 29, 2020, the Company recognized an unrealized loss of ($1,401,371) from changes in the fair value of the investment in Weekend, as well as an unrealized gain of $41,083 in the fair value of the investment resulting from changes in foreign exchange. As such, the fair value of this investment at February 29, 2020 is $1,580,120 ($2,940,408 as at February 28, 2019).

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

	Promedia	Isodiol	Weekend	Totals
Balance as at February 28, 2018	$ -	$ -	$ 320,225	$ 320,225
Acquisitions of investments	196,390	1,000,000	-	1,196,390
Disposal of investments	-	(108,414)	-	(108,414)
Net unrealized changes in fair value	-	(663,008)	2,611,106	1,948,098
Effect of foreign exchange	1,145	-	9,077	10,222
Balance as at February 28, 2019	$ 197,535	$ 228,578	$ 2,940,408	$ 3,366,521
Disposal of investments	-	(17,854)	-	(17,854)
Net realized changes in fair value	(197,535)	(210,724)	-	(408,259)
Net unrealized changes in fair value	-	-	(1,401,371)	(1,401,371)
Effect of foreign exchange	-	-	41,083	41,083
Balance as at February 29, 2020	**$ -**	**$ -**	**$ 1,580,120**	**$ 1,580,120**

8. Investment in Joint Ventures

In August 2019, the Company entered into Membership Interest Redemption agreements with the Schottenstein Group and dissolved 50.1% of Schottenstein Aphria I, LLC, 50% of Schottenstein Aphria II, LLC, and 50% of Schottenstein Aphria III, LLC.

The Company received proceeds of $132,360 (see note 4) and was released of all outstanding obligations to/from the Ohio JV.

The following summarizes the loss on the redemption of Ohio JV:

		Amount
Balance as at February 28, 2018	$	-
Contributions		816,273
Share of loss		(578,362)
Effect of foreign exchange		2,282
Balance as at February 28, 2019	$	240,193
Contributions		142,427
Share of loss		(166,916)
Proceeds from redemption of JV		(132,360)
Release of outstanding to/from JV		(90,450)
Effect of foreign exchange		7,106
Balance as at February 29, 2020	**$**	**-**

The total loss on investment in Ohio JV for the year ended February 29, 2020 was $166,916.

(In Canadian dollars, unless otherwise noted)

9. Property, plant and equipment

	Land	Greenhouse infrastructure	Vehicles	Furniture and equipment	Leasehold improvements	Right-of-use assets	Construction in progress	Total
Cost								
As at February 28, 2018	$ 2,369,442	$ 19,450,173	$ 197,399	$ 1,832,042	$ 430,749	$ -	$ 1,286,034	$ 25,565,839
Additions	-	222,860	279,097	4,313,857	706,911	-	23,910,775	29,433,500
Borrowing costs	-	-	-	-	-	-	2,424,674	2,424,674
Transfers	-	1,604,571	-	-	2,970,503	-	(4,575,074)	-
Disposals	-	-	-	(84,674)	-	-	(262,803)	(347,477)
Effect of foreign exchange	66,593	768,043	9,084	(164,558)	(5,324)	-	184,509	858,347
As at February 28, 2019	**$ 2,436,035**	**$ 22,045,647**	**$ 485,580**	**$ 5,896,667**	**$ 4,102,839**	**$ -**	**$ 22,968,115**	**$ 57,934,883**
Additions	-	170,138	-	1,938,259	20,749	21,613,281	5,138,080	28,880,507
Transfers	-	21,738,706	-	1,260,952	3,822,107	-	(26,821,765)	-
Disposals	(1,154,030)	(3,755,257)	(30,615)	(816,052)	-	-	(78,879)	(5,834,833)
Effect of foreign exchange	37,866	452,236	9,316	131,424	241,358	102,857	272,407	1,247,464
As at February 29, 2020	**$ 1,319,871**	**$ 40,651,470**	**$ 464,281**	**$ 8,411,250**	**$ 8,187,053**	**$ 21,716,138**	**$ 1,477,958**	**$ 82,228,021**

	Land	Greenhouse infratstructure	Vehicles	Furniture and equipment	Leasehold improvements	Right-of-use assets	Construction in progress	Total
Accumulated depreciation								
As at February 28, 2018	$ -	$ 84,963	$ 12,867	$ 180,891	$ 1,314	$ -	$ -	$ 280,035
Charged for the year	-	155,565	80,482	842,559	334,142	-	-	1,412,748
Disposals	-	-	-	-	(3,414)	-	-	(3,414)
Effect of foreign exchange	-	2,703	514	(43,477)	3,688	-	-	(36,572)
As at February 28, 2019	**$ -**	**$ 243,231**	**$ 93,863**	**$ 979,973**	**$ 335,730**	**$ -**	**$ -**	**$ 1,652,797**
Additions	-	2,753,497	94,632	1,277,277	1,285,224	2,359,998	-	7,770,628
Disposals	-	(349,416)	(13,300)	(284,705)	-	-	-	(647,421)
Effect of foreign exchange	-	32,510	2,792	31,934	23,015	32,446	-	122,697
As at February 29, 2020	**$ -**	**$ 2,679,822**	**$ 177,987**	**$ 2,004,479**	**$ 1,643,970**	**$ 2,392,444**	**$ -**	**$ 8,898,701**

	Land	Greenhouse infratstructure	Vehicles	Furniture and equipment	Leasehold improvements	Right-of-use assets	Construction in progress	Total
Net book value								
As at February 28, 2019	$ 2,436,035	$ 21,802,418	$ 391,717	$ 4,916,694	$ 3,767,109	$ -	$ 22,968,115	$ 56,282,086
As at February 29, 2020	**$ 1,319,871**	**$ 37,971,648**	**$ 286,294**	**$ 6,406,771**	**$ 6,543,083**	**$ 19,323,694**	**$ 1,477,958**	**$ 73,329,320**

(In Canadian dollars, unless otherwise noted)

Excluding depreciation of the Chestnut farm, for the year ended February 29, 2020 the Company recorded depreciation and amortization expense of $7,770,628, of which $4,723,449 is depreciation included in cost of sales and inventory, and $3,047,179 is depreciation and amortization included in operating expenses. This compares to $1,412,748 of depreciation expense for the year ended February 28, 2019, of which $1,036,771 was included in cost of sales and inventory, and $375,977 was included in operating expenses.

10. Intangible assets

	Licenses	Software	Intellectual property	Total intangible assets
Cost				
As at February 28, 2018	$ 44,439,009	$ 20,955	$ 5,000,000	$ 49,459,964
Additions	-	361,597	-	361,597
Impairment of intangible assets	-	-	(5,000,000)	(5,000,000)
Effect of foreign exchange	1,257,112	2,050	-	1,259,162
As at February 28, 2019	**$ 45,696,121**	**$ 384,602**	**$ -**	**$ 46,080,723**
Additions	-	11,309	-	11,309
Effect of foreign exchange	902,194	7,645	-	909,839
As at February 29, 2020	**$ 46,598,315**	**$ 403,556**	**$ -**	**$ 47,001,871**

	Licenses	Software	Intellectual property	Total intangible assets
Amortization				
As at February 28, 2018	$ -	$ 8,761	$ 1,286,531	$ 1,295,292
Additions	-	46,431	1,250,000	1,296,431
Impairment of intangible assets	-	-	(2,536,531)	(2,536,531)
Effect of foreign exchange	-	(6,132)	-	(6,132)
As at February 28, 2019	**$ -**	**$ 49,060**	**$ -**	**$ 49,060**
Additions	-	126,699	-	126,699
Effect of foreign exchange	-	2,624	-	2,624
As at February 29, 2020	**$ -**	**$ 178,383**	**$ -**	**$ 178,383**

	Licenses	Software	Intellectual property	Total intangible assets
Net book value				
As at February 28, 2019	$ 45,696,121	$ 335,542	$ -	$ 46,031,663
As at February 29, 2020	**$ 46,598,315**	**$ 225,173**	**$ -**	**$ 46,823,488**

In April 2017, the Company entered into a know-how license agreement with Aphria Inc. (“Aphria”), a related party at that time, in exchange for common shares of the Company. The know-how related to Aphria’s expertise in growing, harvesting and producing cannabis as well as processing automation and other operational improvements. The Company valued the purchase price for this know-how at $5,000,000, which the Company estimated to be its fair value, and recognized this asset under intellectual property in the above table. In October 2018, Aphria terminated the agreement and the Company wrote off the remaining balance of the remaining intangible asset of $2,463,469.

During the year the Company changed its accounting estimate for the useful life of software. The amortization of software was recorded on a straight-line basis over the estimate useful life of one year in the 2019, and this was changed to three years for 2020. The effect of this change in accounting estimate is a $217,444 decrease in amortization expense. The effect in future periods would be impracticable to estimate.

11. Convertible notes payable

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

On December 30, 2019, the Company redeemed US$6,000,000 of convertible notes payable (Note 12).

The Notes are secured by a perfected first priority lien in all existing and future tangible and intangible assets of the Company, including accounts receivable, inventory, equipment, permits, subject only to customary permitted liens and provided that no security interest shall attach to any property or asset (tangible and intangible) which violates or creates a default under any contract to which the Company or any subsidiary is a party. The first priority security interest includes a general security agreement covering and a mortgage over the land and greenhouse infrastructure with a net book value of $39,291,519 as at February 29, 2020.

The Notes are denominated in United States dollars, while convertible in Canadian dollars. The conversion feature in a different currency requires a variable number of shares to settle the Notes and therefore is treated as an embedded derivative under IFRS. The fair value of the embedded derivative was $66,545 as February 29, 2020 ($2,586,646 as at February 28, 2019).

On November 22, 2017, the Company recognized $262,236 in transaction costs relating to the issuance of the Notes. The costs were allocated in a pro-rata manner to the derivative component and the Notes, with the amount of $81,266 for the derivative component being included as part of the transaction costs in the consolidated statement of income (loss) and comprehensive income (loss) for the year ended February 28, 2018 and $180,970 being allocated to the debt. The value of the convertible notes payable was $5,788,319 as at February 29, 2020 ($11,124,391 as at February 28, 2019).

For the year ended February 29, 2020, the embedded derivative decreased by $2,477,875, as compared to a decrease of $344,286 for the year ended February, 28 2019.

For the year ended February 29, 2020, the Company incurred interest expense of $1,749,792 (US$1,320,000), while it incurred interest expense of $1,720,884 (US$1,440,000) for the year ended February 28, 2019. In the fiscal year ending February 28, 2019, interest expense was partially offset by capitalized borrowing costs of $1,117,441 (US$854,247).

The Company recorded accretion interest of $2,477,875, and foreign exchange gain of $62,304 for the year ended February 29, 2020.

(In Canadian dollars, unless otherwise noted)

		Amount
Balance as at February 28, 2018	$	8,837,835
Interest accretion		2,027,104
Effect of foreign exchange		259,452
Balance as at February 28, 2019	$	11,124,391
Interest accretion		2,477,875
Paydown		(7,876,251)
Effect of foreign exchange		62,304
Balance as at February 29, 2020	**$**	**5,788,319**

During the year ended February 29, 2020, $371,831 (US$280,500) was interest paid to related parties for the year ended February 28, 2020, while interest paid to related parties for the year ended February 28, 2019 was $255,000 (US$194,938).

The outstanding interest payable was $402,870 as at February 29, 2020 ($789,492 as at February 28, 2019).

The fair value of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions on February 29, 2020: stock price of $0.54; expected life of 0.73 years; $nil dividends; 93% volatility; risk-free interest rate of 1.22%; foreign exchange rate of 0.7447; and the exercise price of $2.00. The fair value of the embedded derivative was also determined using the Black Scholes valuation model using the following assumptions on February 28, 2019: stock price of $1.08; expected life of 1.73 years; $nil dividends; 92% volatility; risk-free interest rate of 1.94%; foreign exchange rate of 0.7594; and the exercise price of $2.00.

12. Leases

The Company leases commercial properties across the State of Florida where it operates its dispensary and delivery operations. Lease terms are generally between 3 and 5 years. The majority of the Company’s leases include an option to renew the lease for an additional period usually matching the original term lease. At inception, the Company assesses whether it is reasonably certain to exercise the extension options, which is reassessed if there is a significant event or change in circumstances. Some of the Company’s leases also include requirements to make payments in respect of common area maintenance, property taxes, insurance and non-refundable sales taxes, most of which is determined annually. The $26,025,917 gross lease commitments as at February 28, 2019 have been discounted using an average incremental borrowing rate of 15%, which resulted in the recognition of a lease liability as at March 1, 2019 of $14,697,378.

(In Canadian dollars, unless otherwise noted)

As at February 29, 2020, the Company had recognized $21,362,349 in lease liabilities on its statement of financial position.

		Amount
Balance as at March 1, 2019	$	14,697,378
New leases		6,805,305
Lease Payments		(2,943,277)
Lease Interest		2,539,040
Foreign currency translation adjustment		263,903
Balance as at February 29, 2020	**$**	**21,362,349**

Current Lease Liability	$	3,682,031
Long Term Liability		17,680,318
Total Lease Liability	**$**	**21,362,349**

13. Share capital

The Company is authorized to issue an unlimited number of common shares.

	Number of shares		Amount
Balance as at February 28, 2018	303,358,348	$	113,321,501
Share issuance – cash, net of issuance costs	25,555,875		15,518,617
Share issuance – repayment of debt	10,092,583		9,386,102
Share issuance – warrants exercised	6,283,829		7,016,132
Balance as at February 28, 2019	345,290,635	$	145,242,352
Share issuance – stock options exercised	800,000		805,098
Balance as at February 29, 2020	**346,090,635**	**$**	**146,047,450**

In July 2018, the Company issued 10,092,583 common shares from treasury at a price of $0.93 per share to settle US$6,000,000 of outstanding payments to Thermos Energy Systems Inc., a third-party vendor. Outstanding invoices to Thermo Energy Systems Inc. were in respect of ongoing retrofitting and construction services performed at the Company's Liberty 360 Innovation Campus. As a result of this settlement, the Company recognized a loss of $1,493,799 in the consolidated statements of loss and comprehensive loss for the year ended February 28, 2019.

In May 2018, the Company closed a bought deal offering, issuing 25,555,875 units of the Company at a price of $0.90 per unit, including 3,333,375 of over allotment units exercised by the underwriters. Each unit contained one common share and one common share purchase warrant with an exercise price of $1.10 for a period of two years from closing. 1,533,352 Broker Warrants were issued as part of the transaction, consisting of warrants exercisable at $0.90 for a period of two years from closing to acquire one common share and one common share purchase warrant with an exercise price of $1.10 for a period of two years from closing. Cash issuance costs of $1,690,459 were paid in respect of this offering and were allocated in a pro-rata manner between share capital ($1,261,803) and warrant reserve ($428,656).

During the year ended February 29th 2020, 800,000 shares were issued from the exercise of stock options with an average exercise price of $0.624.

(In Canadian dollars, unless otherwise noted)

14. Warrant reserve

On May 10, 2018, the Company issued 25,555,875 common share purchase warrants as part of its bought deal offering. Each warrant is exercisable at $1.10 per share and can be exercised until May 10, 2020. The fair value of these warrants on the grant date was $5,832,266 using the Black-Sholes method.

As part of the bought deal offering on May 10, 2018, the Company issued 1,533,352 Broker Warrants to acquire one common share and one common share purchase warrant exercisable at $1.10 per share that can be exercised until May 10, 2020 (note 13). Each Broker Warrant is exercisable at $0.90 per unit and can be exercised until May 10, 2020. The fair value of these warrants on the grant date was $519,357 and were allocated in a pro-rata manner between share capital and warrant reserve as a cost of issuance in the amounts of $387,662 and $131,695, respectively. As at February 29, 2020, these Broker Warrants remained outstanding.

Cash issuance costs of $1,690,459 were paid in respect of this offering and were allocated in a pro-rata manner between share capital ($1,261,803) and warrant reserve ($428,656).

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

In July 2019, 192,307 warrants issued in July 2017 expired**.**

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

	Number of warrants		Weighted
Balance as at February 28, 2018	12,402,853	$	1.72
Issued during the year	27,089,227		1.09
Exercised during the year	(6,283,829)		0.89
Balance as at February 28, 2019	33,208,251	$	1.36
Expired during the year	(192,307)		0.62
Balance as at February 29, 2020	**33,015,944**	**$**	**1.37**

The remaining life of the outstanding warrants as at February 29, 2020 is 71 days for the warrants expiring 10 May 2020, and 351 days for the warrants expiring 21 Feb. 2021.

Expiry date		Exercise price	Number of warrants	Vested and exercisable
10-May-20	$	1.10	22,074,931	22,074,931
10-May-20	$	0.90	1,533,352	1,533,352
15-Feb-21	$	2.07	9,407,661	9,407,661
Balance as at February 29, 2020			**33,015,944**	**33,015,944**

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

15. Contributed surplus

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

(In Canadian dollars, unless otherwise noted)

The Company recognized share-based compensation expense of $1,212,883 for the year ended February 29, 2020, and $6,505,465 for the year ended February 28, 2019.

	Number of options		Weighted average exercise price
Balance as at February 28, 2018	9,999,832	$	1.43
Issued during the year	2,830,000		0.95
Forfeited during the year	(1,065,000)		0.97
Expired during the year	(239,832)		1.25
Balance as at February 28, 2019	11,525,000	$	1.36
Issued during the year	2,750,000		0.76
Forfeited during the year	(583,348)		0.92
Expired during the year	(8,397,490)		1.47
Exercised during the year	(800,000)		0.62
Balance as at February 29, 2020	**4,494,162**	**$**	**0.97**

In February 2020, 450,000 shares were issued from the exercise of stock options with an average exercise price of $0.624.

In January 2020, 350,000 shares were issued from the exercise of stock options with an average exercise price of $0.624.

In October 2019 the Company issued 900,000 compensation options at the exercise price of $0.39 to a director of the Company. All of these options vest over two years and can be exercised until October 2024.

In May 2019 the Company issued 950,000 compensation options at the exercise price of $0.79 to employees and officers of the Company, of which 140,000 have been forfeited. All of these options vest over two years and can be exercised until May 2024.

In March 2019, the Company issued 900,000 compensation options at the exercise price of $1.09 to an officer of the Company. All of these options vest over two years and can be exercised until February 2024.

In January 2019, the Company issued 2,380,000 compensation options at the exercise price of $0.96 to employees and officers of the Company, of which 640,001 have been forfeited. All of these options vest over two years and can be exercised until January 2024.

In July 2018, the Company issued 450,000 compensation options at the exercise price of $0.92 to employees and officers of the Company, of which 183,335 have been forfeited. All of these options vest over two years, and can be exercised until July 2023.

(In Canadian dollars, unless otherwise noted)

The option details of the Company are as follows:

Expiry date		Exercise price	Number of options	Vested and exerciseable
March 1, 2020	$	1.07	50,000	50,000
March 1, 2020	$	1.62	16,666	16,666
March 7, 2020	$	0.96	3,333	3,333
March 10, 2020	$	0.96	106,666	106,666
March 10, 2020	$	0.92	40,000	40,000
March 13, 2020	$	0.92	33,333	33,333
April 14, 2020	$	0.62	300,000	300,000
April 14, 2020	$	0.92	50,000	50,000
April 14, 2020	$	1.62	1,000,000	1,000,000
August 2, 2020	$	0.79	10,000	10,000
August 2, 2020	$	0.96	10,000	10,000
August 9, 2020	$	0.92	33,332	33,332
August 9, 2020	$	0.79	50,000	50,000
September 2, 2020	$	1.07	13,332	13,332
October 17, 2022	$	1.07	7,500	7,500
October 21, 2020	$	0.79	10,000	10,000
January 24, 2024	$	0.96	220,000	146,664
March 1, 2024	$	1.09	900,000	300,000
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	10,000	3,333
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	30,000	10,000
May 3, 2024	$	0.79	250,000	83,333
May 12, 2024	$	0.79	300,000	100,000
October 11, 2024	$	0.39	900,000	300,000
Balance as at February 29, 2020			**4,494,162**	**2,727,492**

(In Canadian dollars, unless otherwise noted)

16. Related parties

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. Key management personnel include the Company's directors and certain members of the senior management group. Amounts paid to key management personnel and related parties were as follows:

		Year ended February 29, 2020		Year ended February 28, 2019
Employee and staff costs	$	504,442	$	755,788
Professional fees		-		262,927
Share-based compensation		967,010		6,209,380
Termination payments		-		238,542
Consulting fees		210,714		12,412
Interest on convertible note		371,831		255,000
Total	**$**	**2,053,997**	**$**	**7,734,049**

Employee and staff costs, professional fees, share-based compensation and termination payments were payments made in respect of employment agreements of directors and officers of the Company and family members related to them. Share-based compensation expense includes the impact of the accelerated vesting of stock options for certain directors and officers.

Consulting fees include $59,981 ($5,841 for the year ended February 28, 2019) incurred with a shareholder who exercises significant influence over the Company.

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

17. Financial risk management and financial instruments

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, deposits, investments, other receivables, accounts payable and accrued liabilities, lease liabilities, convertible notes payable and embedded derivative.

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

Fair value hierarchy

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

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

(In Canadian dollars, unless otherwise noted)

	Level 1	Level 2	Level 3	29-Feb-20
Financial assets				
Cash and cash equivalents	$ 24,957,245	$ -	$ -	**$ 24,957,245**
Other receivables	113,483	-	-	**113,483**
Security deposits	789,024	-	-	**789,024**
Investments	-	-	1,580,120	**1,580,120**
As at February 29, 2020	**$ 25,859,752**	**$ -**	**$ 1,580,120**	**$ 27,439,872**
Financial liabilities				
Accounts payable and accrued liabilities	$ 6,593,940	$ -	$ -	**$ 6,593,940**
Lease liabilitity	-	-	21,362,349	**21,362,349**
Embedded derivative	-	66,545	-	**66,545**
Convertible note payable	-	-	5,788,319	**5,788,319**
As at February 29, 2020	**$ 6,593,940**	**$ 66,545**	**$27,150,668**	**$ 33,811,153**

	Level 1	Level 2	Level 3	28-Feb-19
Financial assets				
Cash and cash equivalents	$ 13,291,426	-	-	**$ 13,291,426**
Other receivables	1,123,432	-	-	**1,123,432**
Security deposits	480,004	-	-	**480,004**
Investments	228,578	-	3,137,943	**3,366,521**
As at February 28, 2019	**$ 15,123,440**	**$ -**	**$ 3,137,943**	**$ 18,261,383**
Financial liabilities				
Accounts payable and accrued liabilities	$ 9,505,264	-	-	**$ 9,505,264**
Embedded derivative	-	2,586,646	-	**2,586,646**
Convertible notes payable	-	-	11,124,391	**11,124,391**
As at February 28, 2019	**$ 9,505,264**	**$2,586,646**	**$11,124,391**	**$ 23,216,301**

The following table presents the changes in level 3 items for the year ended February 28, 2019 and February 29, 2020:

	Unlisted equity securities
Balance as at February 28, 2018	$ 320,225
Additions	1,146,300
Net unrealized gain on fair value	1,661,695
Effect of foreign exchange	9,723
Balance as at February 28, 2019	$ 3,137,943
Net realized change in fair value	(197,535)
Net unrealized gain on fair value	(1,401,371)
Effect of foreign exchange	41,083
Balance as at February 29, 2020	**$ 1,580,120**

The Company's investments in unlisted equity securities are classified as Level 3 in the fair value hierarchy. Changes to the fair value of these securities are based on financings and other transactional data of the underlying companies. A 10% increase/decrease in the price per share of the Company's investments classified as Level 3 would increase/decrease the Company's change in fair value of investments by $158,012.

A 10% increase/decrease in the price per share of the Company's embedded derivative classified as Level 2 would increase/decrease the Company's change in fair value of the embedded derivative by $25,984.

Financial risk management

The Company has exposure to the following risks:

(a) Business risk

The Company operates in the medical cannabis industry in the United States, which is largely regulated at the state level. Cannabis is categorized under the US federal Controlled Substances Act as a controlled substance and as such, violates federal law in the United States.

(b) Foreign exchange risk

The Company maintains a portion of its cash and cash equivalents, a portion of its other receivables, its investments, and convertible notes payable in United States dollars, which totaled US$17,903,920, US$84,506, US$1,176,648, and US$6,000,000, respectively, as of February 29, 2020 (February 28, 2019: US$2,189,165, US$622,504, US$2,430,556, US$12,000,000) respectively. As a result, the Company's operations are subject to variations from fluctuation in the foreign exchange rate. A 1% change in the foreign exchange rate may result in a gain/loss of approximately $176,794. The Company does not maintain any contract to hedge against any fluctuation on foreign exchange rate.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company has two types of financial assets that are subject to the ECL model which are its cash and cash equivalents, its other receivable and promissory note receivable.

The maximum credit exposure at February 29, 2020 is the carrying amount of these items. The Company does not have significant credit risk with respect to customers. All cash is placed with locally established financial institutions. The Company does have risk associated with the promissory note receivable. In accordance with this risk the Company recognized an impairment as of February 28, 2019 as shown in the financial statements.

(d) Liquidity risk

As at February 29, 2020, the Company's financial liabilities consist of accounts payable and accrued liabilities, which have contractual maturity dates within one year, the Company's convertible notes payable, which matures in November 2020, and lease liabilities.

As of February 29, 2020, the Company's convertible notes payable had a balance of $5,788,319 (US$4,310,313). The remaining face value of the convertible note is US$6,000,000, and the convertible note will mature in November 2020.

(In Canadian dollars, unless otherwise noted)

As of February 29, 2020, the Company had the minimum lease liability payments required under the Company's non-cancelable leases as shown in the table below:

		Amount
2021	$	4,177,166
2022		4,325,738
2023		4,444,010
2024		4,451,715
2025		4,429,681
Thereafter		26,203,606
Total minimum lease payments	**$**	**48,031,916**

The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis.

(e) Interest rate risk

Interest risk is the risk that the fair value or future cash flows of a financial investment will fluctuate because of changes in market interest rates.

(f) Price risk

Price risk is the risk of variability in the fair value due to changes in the quoted price of assets and securities. See Note regarding the fair value assumption in the calculation of biological assets and inventory.

18. Capital management

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

19. Contingent liabilities

The Company has been served a summons in a class action lawsuit against the Company and certain of its former officers and a former director. These claims relate to alleged violations of federal securities laws.

In the ordinary course and conduct of its business, the Company is occasionally the subject of litigation in employment and property matters.

With the exception of the first-mentioned action, none of the matters represent material exposure to the Company.

As at February 29, 2020, the Company has made a provision of $176,000 related to these contingencies which is Management's estimate of the cost of these actions.

The Company is pursuing its defenses diligently.

(In Canadian dollars, unless otherwise noted)

20. Revenue, net of discounts

The Company recognizes revenue from dispensary customers and delivery customers.

The following table represents the Company's revenue disaggregated by source for the years ended February 29, 2020 and February 28, 2019:

	Year ended February 29, 2020	Year ended February 28, 2019
Dispensary	$ 47,907,975	$ 6,583,653
Delivery	2,167,604	3,418,885
Total revenue	**$ 50,075,579**	**$ 10,002,538**

Loyalty rewards of $437,388 are included as reductions to revenue, net of discounts. Included in accounts payable and accrued liabilities is a $924,446 provision related to outstanding loyalty rewards.

21. Cost of sales

The following table represents the Company's cost of sales for the years ended February 29, 2020 and February 28, 2019:

	Year ended February 29, 2020	Year ended February 28, 2019
Raw materials	$ 13,661,421	$ 806,635
Depreciation	3,001,139	255,652
Labour	2,327,005	698,311
Overhead	914,654	578,495
Total cost of sales	**$ 19,904,219**	**$ 2,339,093**

22. Income Taxes

Income taxes recognized in the consolidated statement of income (loss) and comprehensive income (loss) comprise current and deferred tax expense.

(a) Current tax

Current tax expense is the expected tax payable on the taxable income for the year and any tax payable or receivable with respect to the previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at year-end. Current tax assets and liabilities are offset only if certain criteria are met.

As the Company operates in the cannabis industry, it is subject to the limits of the Internal Revenue Code (IRC) Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

(In Canadian dollars, unless otherwise noted)

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 27% (2019 – 26.5%) to the effective tax rate is as follows:

	Year ended February 29, 2020	Year ended February 28, 2019
Net income (loss) before income taxes	**$ 39,907,294**	$ (21,246,929)
Less:		
Expected income tax expense (recovery)	**10,774,969**	(5,630,435)
Tax rate changes and other adjustments	**1,240,046**	(2,314,466)
Non deductible expenses	**327,478**	2,321,510
IRC 280(e) deductions	**5,135,151**	3,334,925
Sale of Chestnut Hill	**(469,954)**	-
Share issuance costs	**-**	(574,738)
Change in tax benefits not recognized	**633,283**	3,910,090
Income tax expense	**$ 17,640,973**	$ 1,046,886

The Company’s income tax expense is allocated as follows:

	Year ended February 29, 2020	Year ended February 28, 2019
Current income tax	**$ 9,336,972**	$ -
Deferred income tax	**8,304,001**	1,046,886
Income tax expense	**$ 17,640,973**	$ 1,046,886

(b) Deferred tax

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(In Canadian dollars, unless otherwise noted)

The following table summarizes the components of deferred tax:

	February 29, 2020	February 28, 2019
Deferred tax assets		
Deferred income loyalty program	$ 80,658	$ -
Loan receivable	-	118,838
Intangible assets	-	1,829,580
Non-capital losses carried forward - US	-	764,664
Non-capital losses carried forward - Canada	-	220,175
Deferred tax liabilities		
Unconsolidated investments	-	34,365
Intangible assets	(476,923)	-
Biological assets	(1,216,652)	(3,163,852)
Capital assets, net of lease liability	(2,256,145)	(1,228,487)
Inventory	(5,859,655)	-
Deferred tax liability, net	$ (9,728,717)	$ (1,424,717)

Movement in deferred tax liability is as follows:

	Year ended February 29, 2020	Year ended February 28, 2019
Balance at the beginning of the year	**$ (1,424,717)**	$ (377,831)
Recognized in profit/loss	**(8,304,000)**	(1,046,886)
Income tax expense	**$ (9,728,717)**	$ (1,424,717)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	February 29, 2020	February 28, 2019
Intangible assets	$ 6,391,048	$ 6,373,818
Share issuance costs - 201(1)(e)	2,815,598	3,521,910
Promissory note	145,136	2,999,122
Non-capital loss carried forward - Canadian	31,520,267	25,424,287
Other differences	-	207,585
Income tax expense	**$ 40,872,049**	$ 38,526,722

As at February 29, 2020, the Company has the following loss carryforwards:

	Year	Amount	Expiry
Canadian non-capital loss carryforward	2017	$ 13,357,177	2037
Canadian non-capital loss carryforward	2018	$ 1,472,206	2038
Canadian non-capital loss carryforward	2019	$ 10,594,904	2039
Canadian non-capital loss carryforward	2020	$ 6,095,980	2040

(In Canadian dollars, unless otherwise noted)

23. Earnings per share

Basic and diluted earnings (loss) per share attributable to Liberty Health Sciences, Inc. was calculated as follows:

		Year ended February 29, 2020		Year ended February 28, 2019
Numerator:				
Net income (loss) attributable to shareholders	$	22,266,322	$	(22,293,815)
Denominator:				
Weighted average common shares outstanding - Basic		345,490,635		332,066,035
Weighted Average common shares outstanding - Diluted		345,840,801		332,066,035
Earnings (loss) per share – Basic	$	0.06	$	(0.07)
Earnings (loss) per share – Diluted	$	0.06	$	(0.07)

The 350,166 difference in the weighted average number of diluted common shares is the result of 1,200,000 options whose exercise price is less than the average market price for the year ended February 29, 2020. The inclusion of shares from the exercise of warrants and from the conversion of the convertible note in the calculation of diluted earnings per share would have been anti-dilutive, and accordingly, these shares were excluded in the diluted loss per share calculation for the year ended February 29, 2020.

As the Company was in a loss position for the year ended February 28, 2019, the inclusion of shares from the exercise of options and warrants, and from conversion of convertible note in the calculation of diluted earnings per share would have been anti-dilutive, and accordingly, these shares were excluded in the diluted loss per share calculation for the year ended February 28, 2019.

24. Subsequent events

Beginning in March 2020 Canadian and US federal, provincial and state governments instituted emergency measures as a result of the COVID-19 virus. The virus has had a major impact on international securities and currency markets and consumer activity which may impact the Company's financial position, its results of operations and its cash flows significantly. As these are subsequent events, these financial statements do not reflect such impact. As at June 25, 2020 it is also not possible to accurately quantify or estimate that impact.

On May 10, 2020, 22,074,931 warrants expired unexercised.

During the period from March 1, 2020 to June 25, 2020, the Company issued options on 2,630,000 common shares to employees, consultants and directors exercisable at $0.43 per share, options on 6,668 common shares were forfeited and options on 1,599,998 common shares expired unexercised.

Other than as disclosed above, the Company has evaluated subsequent events through the date on which the consolidated financial statements were available to be issued and has concluded that no other events or transactions took place that would require disclosure herein.