CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Liberty Health Sciences Inc.

FOR THE THREE MONTHS ENDED MAY 31, 2020 AND THREE MONTHS ENDED MAY 31, 2019

(in Canadian Dollars)

(Unaudited)

NOTICE TO READER

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

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

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Professional Accountants.

Liberty Health Sciences Inc.

Condensed Interim Consolidated Financial Statements
May 31, 2020

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Condensed Interim Consolidated Statements of Financial Position (unaudited)
As at May 31, 2020 and February 29, 2020
(In Canadian dollars)

Condensed Interim Consolidated Statements of Financial Position
as at May 31, 2020 and as at February 29, 2020

	Note		May 31, 2020		Feb 29, 2020
Assets					
Current assets					
Cash and cash equivalents		$	30,961,904	$	24,957,245
Inventory	4		40,215,341		37,524,091
Biological assets	5		10,689,888		6,095,296
Other receivables			34,589		113,483
Prepaid assets			1,280,045		1,300,375
Total current assets		$	83,181,767	$	69,990,490
Non-current assets					
Deposits			902,990		789,024
Investments	6		1,622,244		1,580,120
Property, plant and equipment	7		80,719,381		73,329,320
Intangible assets	8		48,039,903		46,823,488
Total Non-current assets			131,284,518		122,521,952
Total assets		$	214,466,285	$	192,512,442
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	10,038,724	$	6,593,940
Current tax liability			12,130,092		9,336,972
Convertible notes payable	9		6,664,919		5,788,319
Embedded derivative	9		30,425		66,545
Current portion of lease liability	10		4,204,490		3,682,031
Total current liabilities		$	33,068,650	$	25,467,807
Long Term Liabilities					
Deferred tax liability			12,223,450		9,728,716
Lease liability	10		20,338,355		17,680,318
Total Long Term Liabilities			32,561,805		27,409,034
Total liabilities		$	65,630,455	$	52,876,841
Shareholders' equity					
Share capital	11	$	146,047,450	$	146,047,450
Warrant reserve	12		9,355,242		9,355,242
Contributed surplus	13		10,285,254		9,867,755
Accumulated other comprehensive income			8,048,039		3,482,991
Deficit			(24,900,155)		(29,117,837)
Total shareholders' equity		$	148,835,830	$	139,635,601
Total liabilities and shareholders' equity		$	214,466,285	$	192,512,442

Approved on behalf of the Board:

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

"Victor Mancebo"
Signed: CEO and Director

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

Liberty Health Sciences Inc.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited)
For the three month periods ended May 31, 2020 and May 31, 2019
(In Canadian dollars)

			For the three months ended	
	Note		**May 31, 2020**	**May 31, 2019**
Revenue, net of discounts	**18**	**$**	**18,440,756**	5,520,561
Cost of sales				
Cost of goods sold, net			**7,739,760**	3,311,467
Gross profit before fair value adjustments		**$**	**10,700,996**	2,209,094
Realized fair value amounts included in the cost of inventory sold			**(573,707)**	282,920
Unrealized gains resulting from fair value changes on growth of biological assets	**5**		**9,118,888**	2,526,386
Gross profit		**$**	**19,246,177**	5,018,400
Operating expenses				
Professional fees			**953,098**	931,268
Employee and staff costs			**791,217**	1,056,139
Office and general			**1,071,349**	834,032
Consulting fees			**40,597**	75,364
Travel and entertainment			**48,429**	78,506
Advertising and marketing			**119,233**	285,867
Insurance			**344,580**	321,774
Selling costs			**2,265,123**	1,344,472
Facilities expense and leases			**220,154**	217,058
Royalties			**498,258**	300,186
Depreciation	**7**		**965,230**	647,945
Amortization	**8**		**32,214**	99,665
Share-based compensation	**13**		**417,499**	1,292,672
Total operating expenses		**$**	**7,766,981**	7,484,948
Income from Operations			**11,479,196**	(2,466,548)
Non-operating (income) expense				
Change in fair value of investments	**6**		**-**	52,844
Interest expense	**9, 10**		**1,051,950**	956,327
Loss on investment in joint ventures			**-**	68,999
Investor relations and filing fees			**19,840**	234,408
Interest accretion	**9**		**733,053**	592,391
Change in fair value of embedded derivative	**9**		**(36,119)**	(1,397,723)
Foreign currency translation loss			**459,088**	173,916
Other			**(254,151)**	54,985
Total other non-operating items		**$**	**1,973,661**	736,147
Net Income (loss) before tax		**$**	**9,505,535**	(3,202,696)
Current income tax	**20**		**2,793,120**	-
Deferred income tax			**2,494,733**	-
Total tax		**$**	**5,287,853**	-
Net income (loss)		**$**	**4,217,682**	(3,202,696)
Other comprehensive income				
Foreign currency translation gain			**4,565,048**	3,171,238
Comprehensive income (loss)		**$**	**8,782,730**	**(31,458)**
Weighted average number of shares – basic			**346,090,635**	345,290,635
Earnings (loss) per share – Basic	**21**	**$**	**0.01**	(0.01)
Earnings (loss) per share – Diluted	**21**	**$**	**0.01**	(0.01)

Liberty Health Sciences Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (unaudited)
For the Three Months Ended May 31, 2020 and the Year Ended February 29, 2020
(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, 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, 10**	-	-	-	-	-	(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	**13**	-	-	-	1,212,883	-	-	1,212,883
Exercise of stock options		800,000	805,098	-	(307,230)	-	-	497,868
Net comprehensive income for the year		-	-	-	(32)	3,111,469	22,266,323	25,377,760
Balance as at February 29, 2020		346,090,635	$ 146,047,450	$ 9,355,242	$ 9,867,755	$ 3,482,991	$ (29,117,837)	$ 139,635,601
Share-based compensation	**13**	-	-	-	417,499	-	-	417,499
Net comprehensive income for the year		-	-	-	-	4,565,048	$ 4,217,682	8,782,730
Balance as at May 31, 2020		**346,090,635**	**146,047,450**	**9,355,242**	**10,285,254**	**8,048,039**	**(24,900,155)**	**$ 148,835,830**

Liberty Health Sciences Inc.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)
For the Three Month Periods ended May 31, 2020 and May 31, 2019
(In Canadian dollars)

		For the three months ended	
	Note	May 31, 2020	May 31, 2019
Operating activities			
Net income (loss)		$ **4,217,682**	(3,202,696)
Adjustments for:			
Depreciation	**7**	**1,977,238**	1,690,081
Amortization	**8**	**32,214**	97,223
Realized fair value amounts included in the cost of inventory sold	**5**	**573,707**	(282,920)
Unrealized gains resulting from fair value changes on growth of biolo	**5**	**(9,118,888)**	(2,526,386)
Share-based compensation	**13**	**417,499**	1,292,672
Accretion expense	**9**	**733,071**	592,391
Change in fair value of embedded derivative	**9**	**(36,119)**	(1,340,384)
Change in fair value of investments		**-**	52,844
Deferred tax		**2,494,733**	-
Gain on disposal of assets	**7**	**11,084**	77,847
Loss on joint venture		**-**	68,999
		$ **1,302,221**	(3,480,329)
Changes in operating assets and liabilities			
Inventory		**(2,220,706)**	(707,086)
Biological assets		**4,801,875**	(55,719)
Prepaid expenses and other current assets		**99,224**	218,096
Security Deposits		**(113,966)**	(89,365)
Accounts payable and accrued liabilities		**4,496,773**	(564,750)
Income tax payable		**2,793,120**	-
		$ **9,856,320**	(1,198,824)
Cash provided (used) by operating activities		**11,158,541**	(4,679,153)
Investing activities			
Purchase of property, plant & equipment and intangible assets	**7, 8**	**(4,324,234)**	(1,622,914)
Purchase and sale of Investments, net		**-**	(142,427)
Cash provided (used) by investing activities		$ **(4,324,234)**	(1,765,341)
Financing activities			
Lease Payments		**(800,109)**	(473,835)
Interest payable on convertible debt		**(251,880)**	(482,492)
Cash provided (used) by financing activities		$ **(1,051,989)**	(956,327)
Effect of exchange rate changes		**222,341**	(475,067)
Net increase (decrease) in cash and cash equivalents		**6,004,659**	(7,875,888)
Cash and cash equivalents, beginning of year		**24,957,245**	13,291,426
Cash and cash equivalents, end of year		$ **30,961,904**	$ 5,415,538

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 July 30, 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 July 30, 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) Recently adopted accounting standards

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.

(In Canadian dollars, unless otherwise noted)

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.

4. 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:

	May 31, 2020	May 31, 2019
Raw materials		
Harvested cannabis	$ 24,672,416	$ 24,561,278
Packaging and miscellaneous	4,636,583	714,495
Total raw materials	$ 29,308,999	$ 25,275,773
Work-in-process	4,091,398	7,351,172
Finished goods	6,814,943	5,440,882
Total inventories	**$ 40,215,341**	$ 38,067,827

(In Canadian dollars, unless otherwise noted)

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

5. Biological assets

Biological assets are comprised of:

		Amount
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	**$**	**6,095,296**
Costs incurred until harvest		1,100,531
Effect of changes in fair value of biological assets		18,414,224
Transferred to inventory upon harvest		(15,016,433)
Effect of Foreign Exchange		96,269
Balance as at May 31, 2020	**$**	**10,689,888**

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 May 31, 2020, as at February 29, 2020, and as at May 31, 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 $10.18 for cannabis flower for the three months ended May 31, 2020 and for the year ended February 29, 2020, respectively. Estimated selling prices averaged $8.22 for cannabis flower for the three months ended May 31, 2019.

(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 May 31, 2020 averaged 58%, compared to 48% as at February 29, 2020. The estimated stage of growth of cannabis plants averaged 49% as at May 31, 2019.

(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 54 dry grams per plant for the three months ended May 31, 2020, compared to an average 52 dry grams per plant for the year ended February 29, 2020. The average dried weight yield of whole flower used was 26 grams per plant for the three months ended May 31, 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 May 31, 2020 and as at February 29, 2020.

(In Canadian dollars, unless otherwise noted)

Assumption	10% change as at May 31, 2020	10% change as at February 29, 2020
Estimated Selling Price	$1,774,374	$1,235,911
Expected number of stages of growth	$1,087,488	$610,272
Expected yields for cannabis plants	$1,084,961	$609,530
After harvest cost to complete and sell	$689,412	$626,381

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).

6. 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"), the parent company of Green Tank Holdings, for US$250,000 ($325,003). 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 Series A 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 Series A 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).

For the three months ended May 31, 2020, the Company recorded a gain in the fair value of the investment of $42,124 from changes in foreign exchange.

The table below summarizes the changes in value of the Company's investments as at February 29, 2020, and for the three months ending May 31, 2020.

	Promedia	Isodiol	Green Tank	Totals
Balance as at February 28, 2019	$ 197,535	$ 228,578	$ 2,940,408	$ 3,366,521
Acquisitions of investments	-	-	-	-
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
Acquisitions of investments	-	-	-	-
Disposal of investments	-	-	-	-
Net realized changes in fair value	-	-	-	-
Net unrealized changes in fair value	-	-	-	-
Effect of foreign exchange	-	-	42,124	42,124
Balance as at May 31, 2020	$ -	$ -	**$ 1,622,244**	**$ 1,622,244**

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(In Canadian dollars, unless otherwise noted)

7. 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, 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**
Additions	-	43,171	-	338,877	-	2,704,137	4,418,545	7,504,730
Transfers	-	68,328	-	82,645	-	-	(150,973)	-
Disposals	-	-	(29,244)	-	(10,579)	-	14,013	(25,810)
Effect of foreign exchange	35,186	1,082,075	12,807	218,028	218,412	539,114	(23,632)	2,081,990
As at May 31, 2020	**$ 1,355,057**	**$ 41,845,044**	**$ 447,844**	**$ 9,050,800**	**$ 8,394,886**	**$ 24,959,389**	**$ 5,735,911**	**$ 91,788,931**

	Land	Greenhouse infratstructure	Vehicles	Furniture and equipment	Leasehold improvements	Right-of-use assets	Construction in progress	Total
Accumulated depreciation								
As at February 28, 2019	$ -	$ 243,229	$ 93,863	$ 979,973	$ 335,730	$ -	$ -	$ 1,652,795
Depreciation	-	2,753,497	94,632	1,277,261	1,285,222	2,359,998	-	7,770,610
Disposals	-	(349,416)	(13,300)	(284,705)	-	-	-	(647,421)
Effect of foreign exchange	-	32,512	2,792	31,950	23,018	32,445	-	122,717
As at February 29, 2020	**$ -**	**$ 2,679,822**	**$ 177,987**	**$ 2,004,479**	**$ 1,643,970**	**$ 2,392,443**	**$ -**	**$ 8,898,701**
Depreciation	-	707,379	22,743	431,786	426,157	389,173	-	1,977,238
Disposals	-	-	(13,139)	-	(1,587)	-	-	(14,726)
Effect of foreign exchange	-	61,026	4,603	47,081	37,576	58,051	-	208,337
As at May 31, 2020	**$ -**	**$ 3,448,227**	**$ 192,194**	**$ 2,483,346**	**$ 2,106,116**	**$ 2,839,667**	**$ -**	**$ 11,069,550**

	Land	Greenhouse infratstructure	Vehicles	Furniture and equipment	Leasehold improvements	Right-of-use assets	Construction in progress	Total
Net book value								
As at February 29, 2020	$ 1,319,871	$ 37,971,648	$ 286,294	$ 6,406,771	$ 6,543,083	$ 19,323,695	$ 1,477,958	$ 73,329,320
As at May 31, 2020	**$ 1,355,057**	**$ 38,396,817**	**$ 255,650**	**$ 6,567,454**	**$ 6,288,770**	**$ 22,119,722**	**$ 5,735,911**	**$ 80,719,381**

(In Canadian dollars, unless otherwise noted)

For the three months ended May 31, 2020 the Company recorded depreciation and amortization expense of $1,977,238, of which $1,012,008 is depreciation included in cost of sales and inventory, and $965,230 is depreciation and amortization included in operating expenses. This compares to $7,770,628 of depreciation expense for the year ended February 29, 2020, of which $4,723,449 was included in cost of sales and inventory, and $3,047,179 was included in operating expenses. For the three months ended May 31, 2019 depreciation expense was $1,690,081 of which $1,042,136 is included in cost of sales and inventory and $647,945 is depreciation included in operating expenses.

8. Intangible assets

As at May 31, 2020, and as at February 29, 2020, intangible assets consisted of licenses and software as described in the table below:

		Licenses		Software		Total intangible assets
Cost						
As at February 28, 2019	$	45,696,121	$	384,602	$	46,080,723
Additions		-		11,309		11,309
Impairment of intangible assets		-		-		-
Effect of foreign exchange		902,194		7,645		909,839
As at February 29, 2020	**$**	**46,598,315**	**$**	**403,556**	**$**	**47,001,871**
Additions		-		-		-
Effect of foreign exchange		1,241,652		10,758		1,252,410
As at May 31, 2020	**$**	**47,839,967**		**414,314**		**48,254,281**

		Licenses		Software		Total intangible assets
Amortization						
As at February 28, 2019	$	-	$	49,060	$	49,060
Additions		-		126,699		126,699
Impairment of intangible assets		-		-		-
Effect of foreign exchange		-		2,624		2,624
As at February 29, 2020	**$**	**-**	**$**	**178,383**	**$**	**178,383**
Additions		-		32,214		32,214
Effect of foreign exchange		-		3,781		3,781
As at May 31, 2020	**$**	**-**	**$**	**214,378**	**$**	**214,378**

		Licenses		Software		Total intangible assets
Net book value						
As at February 29, 2020	$	46,598,315	$	225,173	$	46,823,488
As at May 31, 2020	**$**	**47,839,967**	**$**	**199,936**	**$**	**48,039,903**

For the three months ended May 31, 2020, the Company recorded amortization expense of $32,214. This compares to amortization expense reported by the Company of $99,665 for the three months ended May 31, 2019. During the year ended February 29, 2020, the Company changed its accounting estimate for the useful life of software, and the amortization of software was recorded on a straight-line basis over the estimate useful life of three years. The effect of this change in accounting estimate was a $64,815 decrease in amortization expense in the three months ended May 31, 2019. The effect in future periods would be impracticable to estimate.

9. 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 the conversion feature is in Canadian dollars. The conversion feature being 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 $30,421 as May 31, 2020 ($66,545 as at February 29, 2020).

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 allocated to 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 $6,664,919 as at May 31, 2020 ($5,788,319 as at February 29, 2020).

For the three months ended May 31, 2020, the fair value of the embedded derivative decreased by $36,119, as compared to a decrease of $1,397,723 for the three months ended May, 31 2019.

For the three months ended May 31, 2020, the Company incurred interest expense related to its convertible note of $251,880 (US$179,996), while it recorded interest expense related to its convertible note of $482,492 (US$360,000) for the three months ended May 31, 2019.

The Company recorded accretion interest of $733,071, and foreign exchange gain of $143,529 for the three months ended May 31, 2020. The Company recorded accretion interest of $592,391 and foreign exchange gain of $307,918 for the three months ended May 31, 2019.

		Amount
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
Interest accretion		733,071
Paydown		-
Effect of foreign exchange		143,529
Balance as at May 31, 2020	**$**	**6,664,919**

For the three months ended May 31, 2020, interest expense of $53,523 (US$38,250) was incurred with related parties compared to $102,533 (US$76,500) for the three months ended May 31, 2019.

The outstanding interest payable was $166,182 as at May 31, 2020 ($402,870 as at February 29, 2020).

(In Canadian dollars, unless otherwise noted)

This compares to outstanding interest payable as at May 31, 2019 of $324,648.

The fair value of the embedded derivative was determined using the Black Scholes valuation model using the following assumptions for May 31, 2020: stock price of $0.53; expected life of 0.48 years; $nil dividends; 100% volatility; risk-free interest rate of 0.44%; foreign exchange rate of 0.7253; 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 for 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 determined using the Black Scholes valuation model using the following assumptions on May 31, 2019: stock price of $0.78; expected life of 1.48 years; $nil dividends; 94% volatility; risk-free interest rate of 1.51%; foreign exchange rate of 0.7393; and the exercise price of $2.00.

10. 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 Company has incurred in gross lease commitments of $50,010,025 as at May 31, 2020. As at May 31, 2020, the undiscounted gross lease commitments, including options to renew the leases, are broken down by year as follows:

		Amount
2021 (remaining nine months)	$	3,326,859
2022		4,565,928
2023		4,702,687
2024		4,760,618
2025		4,745,621
Thereafter		27,908,312
Total minimum lease payments	**$**	**50,010,025**

Lease commitments have been discounted using an average incremental borrowing rate of 15%, which resulted in the recognition of a lease liability as at May 31, 2020 of $24,542,845. This compares to gross lease commiments of $48,031,916 as at February 29, 2020, which, when discounted using an average incremental borrowing rate of 15%, resulted in the recognition of a lease liability as at February 29, 2020 of $21,362,349.

Lease liabilities on the Company's statement of financial position of $24,542,845 as at May 31, 2020 compare to lease liabilities on the Company's statement of financial position $18,527,678 as at May 31, 2019.

The table below summarizes the lease liability amount recognized by the Company on its statement of financial position as at May 31, 2020.

(In Canadian dollars, unless otherwise noted)

		Amount
Balance as at February 29, 2020	$	21,362,349
New leases		2,871,414
Lease Payments		(375,207)
Lease Interest		311,013
Effect of Foreign Exchange		373,276
Balance as at May 31, 2020	**$**	**24,542,845**
Current Lease Liability		4,204,490
Long Term Liability		20,338,355
Total Lease Liability as at May 31, 2020	**$**	**24,542,845**

11. Share capital

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

As at May 31, 2020 the Company has issued 346,090,635 shares. As at May 31, 2019 the Company issued 345,290,635 shares, of which 3,299,998 were held under escrow. During the year ended February 29, 2020, 800,000 shares were issued from the exercise of stock options with an average exercise price of $0.624. Following the issuance of these shares from the exercise of stock options, as at February 29, 2020 the Company has issued 346,090,635 shares.

	Number of shares		Amount
Balance as at February 28, 2019	345,290,635	$	145,242,352
Share issuance – Options exercised	800,000		805,098
Balance as at February 29, 2020	346,090,635	**$**	146,047,450
Share issuance – stock options exercised	0		0
Balance as at May 31, 2020	**346,090,635**	**$**	**146,047,450**

12. Warrant reserve

In the three months ending May 31, 2020, 22,074,931 warrants issued by the Company on May 10, 2018, and 1,533,352 Broker Warrants also issued by the Company on May 10, 2018 expired**.** In July 2019, 192,307 warrants issued in July 2017 expired**.**

The warrant details of the Company are as follows:

(In Canadian dollars, unless otherwise noted)

	Number of Warrants		Weighted average exercise price
Balance as at February 29, 2019	31,674,899	$	1.72
Expired during the period	(192,307)		0.62
Balance as at February 29, 2020	31,482,592	**$**	**1.39**
Expired during the period	(22,074,931)		1.10
Balance as at May 31, 2020	**9,407,661**	**$**	**2.07**

	Number of Bought deal broker warrants		Weighted average exercise price
Balance as at February 29, 2019	1,533,352		0.90
Balance as at February 29, 2020	**1,533,352**	**$**	**0.90**
Expired during the period	(1,533,352)		0.90
Balance as at May 31, 2020	**-**	**$**	**-**

The remaining life of the outstanding warrants as at May 31, 2020 is 266 days for the warrants expiring 21 Feb. 2021.

Expiry date		Exercise price	Number of warrants	Vested and exercisable
15-Feb-21	$	2.07	9,407,661	9,407,661
Balance as at May 31, 2020		**2.07**	**9,407,661**	**9,407,661**

13. Contributed surplus

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

The Company recognized share-based compensation expense of $417,499 for the three months ended May 31, 2020. This compares to shared-based compensation expense of $1,292,672 for the three months ended May 31, 2019.

(In Canadian dollars, unless otherwise noted)

	Number of options		Weighted average exercise price
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**	**$**	**0.97**
Issued during the first three months of the fiscal year	2,630,000		0.43
Forfeited during the first three months of the fiscal year	(6,668)		0.96
Expired during the first three months of the fiscal year	(1,599,998)		1.32
Exercised during the first three months of the fiscal year	-		-
Balance as at May 31, 2020	**5,517,496**	**$**	**0.61**

During the three months ended May 31, 2020, the Company issued options on 2,630,000 compensation options to employees, consultants and directors exercisable at $0.43 per share. This compares to 1,850,000 compensation options granted to employees, consultants and directors of the Company during the three months ended May 31, 2019 as discussed below.

During the three months ended May 31, 2020, options on 1,599,998 common shares expired unexercised, and options on 6,668 common shares were forfeited. This compares to options on 106,673 common shares that either expired or were forfeited in the three months ended May 31, 2019.

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

In January 2020, 350,000 common shares were issued following 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 either been forfeited or have expired as at May 31, 2020, 70,000 of these options already vested and will expire in 2020, and the rest of these options will 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 2,156,668 have either been forfeited or have expired. Of the remaining outstanding options granted in January 2019, 10,000 will expire in October 2020, and the rest, 213,332, will vest over two years and can be exercised until January 2024.

A total of 20,832 options granted in 2017 at the exercise price of $1.07 remain vested and outstanding as at May 31, 2020. Of these, 7,500 will expire in 2022, and 13,332 will expire in September 2020.

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 416,668 have either been forfeited or have expired. The remaining 33,332 options issued in July 2018 already vested and can be exercised until August 2020.

(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
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	213,332	146,664
March 1, 2024	$	1.09	900,000	300,000
May 3, 2024	$	0.79	440,000	146,666
May 12, 2024	$	0.79	300,000	100,000
October 11, 2024	$	0.39	900,000	300,000
April 9, 2020	$	0.43	2,630,000	876,667
Balance as at May 31, 2020			**5,517,496**	**2,004,161**

14. Related parties

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company directly and indirectly. Key management personnel include the Company's directors and certain members of the senior management group.

For the three months ended May 31, 2020, the Company paid $539,869 to key management personnel and related parties. This compares to $830,904 paid to related parties in the three months ended May 31, 2019. The amounts paid to related parties in the three months ended May 31, 2020, and May 31, 2019 are broken down as follows:

		Three months ended May 31, 2020		Three months ended May 31, 2019
Employee and staff costs	$	161,458	$	193,155
Share-based compensation		333,471		516,684
Consulting fees		44,940		44,565
Interest on convertible note		-		76,500
Total	**$**	**539,869**	**$**	**830,904**

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 $13,828 incurred during the three months ended May 31, 2020 with a shareholder who exercises significant influence over the Company ($5,841 for the three months ended May 31, 2019).

15. 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	31-May-20
Financial assets				
Cash and cash equivalents	$ 30,961,904	$ -	$ -	**$ 30,961,904**
Other receivables	$ 1,314,634	-	-	**$ 1,314,634**
Security Deposits	$ 902,990	-	-	**$ 902,990**
Investments	$ -	-	1,622,244	**$ 1,622,244**
As at May 31, 2020	**$ 33,179,528**	**$ -**	**$ 1,622,244**	**$ 34,801,772**
Financial liabilities				
Accounts payable and accrued liabilities	$ 10,107,659	$ -	$ -	**$ 10,107,659**
Taxes Payable	$ 9,336,972	-	-	**$ 9,336,972**
Lease liability	$ -	-	$ 24,704,340	**$ 24,704,340**
Embedded derivative	$ -	30,425	-	**$ 30,425**
Convertible notes payable	$ -	-	6,664,919	**$ 6,664,919**
As at May 31, 2020	**$ 19,444,631**	**$ 30,425**	**$ 31,369,259**	**$ 50,844,315**

	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**
Taxes Payable	$ 9,336,972	-	-	**$ 9,336,972**
Lease liabilitity	$ -	-	$ 21,362,349	**$ 21,362,349**
Embedded derivative	$ -	66,545	-	**$ 66,545**
Convertible notes payable	$ -	-	5,788,319	**$ 5,788,319**
As at February 29, 2020	**$ 15,930,912**	**$ 66,545**	**$ 27,150,668**	**$ 43,148,125**

The following table presents the changes in level 3 items for the three months ended May 31, 2020, and for the year ended February 29, 2020.

		Unlisted equity securities
Balance as at February 29, 2020	$	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	**$**	**1,580,120**
Net unrealized gain on fair value		-
Effect of foreign exchange		42,124
Balance as at May 31, 2020	**$**	**1,622,244**

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 $162,224.

A 10% increase/decrease in the price per share of the Company's would increase/decrease the fair value of the embedded derivative classified as Level 2 by $14,897.

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$10,763,059, US$17,627, US$1,176,648, and US$6,000,000, respectively, as of May 31, 2020 (February 29, 2020: US$17,903,920, US$84,506, US$1,176,648, and US$6,000,000) 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 $92,949. 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 May 31, 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.

(In Canadian dollars, unless otherwise noted)

(d) Liquidity risk

As at May 31, 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 May 31, 2020, the Company's convertible notes payable had a balance of $6,664,919 (US$4,834,205). The remaining face value of the convertible note is US$6,000,000, and the convertible note will mature in November 2020.

As of May 31, 2020, the Company had undiscounted lease liability payments due under the Company's non-cancelable leases as shown in the table below:

		Amount
2021 (remaining nine months)	$	3,326,859
2022		4,565,928
2023		4,702,687
2024		4,760,618
2025		4,745,621
Thereafter		27,908,312
Total minimum lease payments	**$**	**50,010,025**

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.

16. 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.

17. 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.

(In Canadian dollars, unless otherwise noted)

As at May 31, 2020 and February 29, 2020, the Company's statement of financial position reflects 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.

18. 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 three months ended May 31, 2020 and May 31, 2019:

	Three months ended May 31, 2020	Three months ended May 31, 2019
Dispensary	$ 17,930,668	$ 4,695,838
Delivery	1,001,479	824,723
Total revenue	**$ 18,932,147**	**$ 5,520,561**

Loyalty rewards of $390,671 are included as reductions to revenue, net of discounts for the three month period ended May 31, 2020. This compares to loyalty rewards of $380,417 included as reductions to revenue for the three months ended May 31, 2019.

Included in accounts payable and accrued liabilities is a provision related to outstanding loyalty rewards of $1,334,009 as at May 31, 2020. This amount compares to a provision for outstanding loyalty rewards of $484,862 as at May 31, 2019.

19. Cost of Goods Sold

The following table represents the Company's cost of goods sold for the three months ended May 31, 2020 and for the three months ended May 31, 2019:

	Three months ended May 31, 2020	Three months ended May 31, 2019
Raw materials	$ 5,024,090	$ 591,986
Depreciation	1,150,652	1,027,495
Labour	937,686	727,938
Overhead	627,332	964,048
Total cost of goods sold	**$ 7,739,760**	**$ 3,311,467**

The Company recorded cost of goods for the three months ended May 31, 2020 of $7,739,760, compared to costs of goods sold recorded for the three months ended May 31, 2019 of $3,311,467.

The Company capitalizes certain production costs to inventory and costs of goods sold. The Company approach to the capitalization of production costs was refined during the fiscal year ended February 29, 2020. Applying the Company capitalization approach as defined at the end of the fiscal year ended February 29, 2020 would reduce overhead included in cost of goods sold for the three months ended May 31, 2019 by $302,925.

(In Canadian dollars, unless otherwise noted)

20. Income Taxes

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

For the three months ended May 31, 2020, the Company recorded Income tax expense of $5,035,532, as compared to a tax provision of $nil for the three months ended May 31, 2019. For the fiscal year ended February 29, 2020, the Company recorded income tax expense of $17,640,973.

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

	Three months ended May 31, 2020	Three months ended May 31, 2019
Current income tax	$ 2,793,120	$ -
Deferred income tax	2,494,733	-
Income tax expense	**$ 5,287,853**	**$ -**

(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.

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:

	Three months ended May 31, 2020	Year ended February 29, 2020
Net income (loss) before income taxes	**$ 9,505,535**	**$ 39,907,294**
Less:		
Expected income tax expenses	2,566,494	10,774,969
Tax rate changes and other adjustments	264,174	1,426,585
Non deductible expenses	112,725	327,478
IRC 280(e) deductions	1,928,746	5,135,151
Sale of Chestnut Hill	-	(469,954)
Change in tax benefits not recognized	415,714	446,744
Income tax expense	**$ 5,287,853**	**$ 17,640,973**

(In Canadian dollars, unless otherwise noted)

(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.

The following table summarizes the components of deferred tax:

		May 31, 2020		**February 29, 2020**
Deferred tax assets				
Deferred income loyalty program	$	146,446	$	80,658
Deferred tax liabilities				
Capital assets, net of lease liability	$	(1,960,340)	$	(2,256,145)
Intangible assets		(1,011,762)		(476,923)
Inventory		(7,539,140)		(5,859,655)
Biological assets		(1,858,654)		(1,216,652)
Deferred tax liability, net	$	(12,223,450)	$	(9,728,717)

Movement in deferred tax liability is as follows:

		Three months ended May 31, 2020		**Year ended February 29, 2020**
Balance at the beginning of the period	$	(9,728,717)	$	(1,424,717)
Recognized in profit/loss		(2,494,733)		(8,304,000)
Balance at the end of the period	$	(12,223,450)	$	(9,728,717)

(In Canadian dollars, unless otherwise noted)

Unrecognized deferred tax assets

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

		May 31, 2020		February 29, 2020
Intangible assets	$	6,402,357	$	6,391,048
Share issuance costs - 201(1)(e)		2,252,478		2,815,598
Promissory note		-		145,136
Non-capital loss carried forward - Canadian		33,059,948		31,520,267
Other differences		-		-
Income tax expense	$	41,714,784	$	40,872,049

As at May 31, 2020, the Company has the following loss carryforwards:

	Year	Expiration		Amount as at May 31, 2021
Canadian non-capital loss carryforward	2017	2037	$	13,357,177
Canadian non-capital loss carryforward	2018	2038	$	1,472,206
Canadian non-capital loss carryforward	2019	2039	$	10,594,904
Canadian non-capital loss carryforward	2020	2040	$	6,095,980
Canadian non-capital loss carryforward	2021	2041	$	1,539,681

21. Earnings per share

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

		Three months ended May 31, 2020		Three months ended May 31, 2019
Numerator:				
Net income (loss) attributable to shareholders	$	5,047,586	$	(3,202,696)
Denominator:				
Weighted average common shares outstanding - Basic		346,090,635		345,290,635
Weighted Average common shares outstanding - Diluted		347,267,302		345,290,635
Earnings (loss) per share – Basic	$	0.01	$	(0.01)
Earnings (loss) per share – Diluted	$	0.01	$	(0.01)

The additional 1,176,667 shares results from options whose exercise price is less than the average market price for the three months ended May 31, 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 for the period ended May 31, 2019 would have been anti-dilutive, and accordingly, these shares were excluded in the diluted loss per share calculation for the three months ended May 31, 2019.

As the Company was in a loss position for the three months ended May 31, 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 three months ended May 31, 2019.

22. 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 the COVID 19 crisis persisted following the end of the first quarter ended May 31, 2020, these financial statements do not reflect such impact. As at July 30, 2020 it is also not possible to accurately quantify or estimate that impact.

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