True Leaf Medicine International Ltd.
Condensed Consolidated Interim Financial Statements
For the Nine months ended December 31, 2018 and December 31, 2017

(Unaudited)
(Expressed in Canadian dollars)

TRUE LEAF MEDICINE INTERNATIONAL LTD.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

		December 31, 2018		March 31,2018
Assets				
Current assets				
Cash and cash equivalents	$	2,386,083	$	10,812,815
Receivables (Notes 4,11)		613,348		385,671
Inventories (Note 5)		402,457		570,594
Prepaid expenses and deposits (Notes 6,7)		528,177		149,199
Total current assets		3,930,065		11,918,279
Non-current assets				
Land (Note 7)		3,380,387		3,380,387
Construction in progress (Note 7)		6,750,913		726,955
Capital assets (Note 8)		120,070		132,420
Intangible assets (Note 9)		152,345		142,690
Total assets	**$**	**14,333,780**	**$**	**16,300,731**
Liabilities and shareholders' equity				
Current liabilities				
Accounts payable and accrued liabilities	$	1,378,741	$	927,987
Construction holdback payable (Note 7)		509,571		98,661
Short term note payable (Note 10)		61,725		-
Due to related parties (Note 11)		-		23,314
Total current liabilities		1,950,037		1,049,962
Total liabilities		**1,950,037**		**1,049,962**
Shareholders' equity				
Share capital (Note 12)		22,002,919		21,693,918
Reserves		2,850,771		2,518,723
Deficit		(12,469,947)		(8,961,872)
Total shareholders' equity		**12,383,743**		**15,250,769**
Total liabilities and shareholders' equity	**$**	**14,333,780**	**$**	**16,300,731**

Nature of Operations and Going Concern (Note 1)
Commitments (Note 15)
Events after the reporting period (Note 17)

Approved on behalf of the Board of Directors on February 25, 2019

"Darcy Bomford" Director *"Michael Harcourt"* Director

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

TRUE LEAF MEDICINE INTERNATIONAL LTD.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited)
(Expressed in Canadian dollars)

	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017 (Note 2(d))	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017 (Note 2(d))
Sales (Note 17)	$652,370	$265,555	$1,715,775	$1,016,667
Cost of sales	(368,661)	(164,181)	(944,897)	(579,029)
Gross profit	283,709	101,374	770,878	437,638
Operating Expenditures				
Accounting and legal	100,174	68,496	253,802	291,821
Accretion	-	2,940	-	8,819
Administrative and office (Note 13)	800,377	366,939	2,110,236	941,823
Amortization and depreciation (Notes 8,9)	3,744	13,992	119,618	27,535
Directors' fees (Note 11)	7,250	1,875	14,375	5,625
Research and development	74,992	16,521	114,557	24,338
Selling and marketing	508,660	178,310	1,350,480	410,996
Share-based compensation (Note 12)	133,828	-	455,477	869,360
Total operating expenditures	1,629,025	649,073	4,418,545	2,580,316
Rental income	34,300	-	60,531	-
Foreign exchange (loss) gain	(1,073)	6,658	79,061	14,416
Loss and comprehensive loss for the period	**$(1,312,089)**	$ (541,041)	**$(3,508,075)**	$(2,128,262)
Loss per common share – basic and diluted	$(0.01)	$ (0.04)	$(0.04)	$ (0.04)
Weighted average number of common shares outstanding – basic and diluted	95,683,848	70,617,616	95,473,604	68,133,904

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

TRUE LEAF MEDICINE INTERNATIONAL LTD.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Share subscriptions Received	Reserves	Deficit	Total Shareholders' Equity
Balance, March 31, 2017	**60,427,383**	**$ 5,088,454**	**$ -**	**$ 339,802**	**$ (5,001,453)**	**$ 426,803**
Private placements, net of share issue costs	7,741,645	2,289,574	-	-	-	2,289,574
Shares issued on exercise of stock options	2,488,759	976,179	-	(331,600)	-	644,579
Shares issued on exercise of warrants	1,682,015	469,777	-	-	-	469,777
Share subscriptions received	-	-	19,500	-		19,500
Share-based compensation	-	-	-	869,360	-	869,360
Loss for the period	-	-	-	-	(2,128,262)	(2,128,262)
Balance, December 31, 2017	**72,285,802**	**$ 8,823,984**	**$ 19,500**	**$ 877,562**	**$ (7,129,715)**	**$ 2,591,331**
Balance, March 31, 2018	**95,369,059**	**$ 21,693,918**	**$ -**	**$ 2,518,723**	**$ (8,961,872)**	**$ 15,250,769**
Shares issued on exercise of stock options	**857,145**	**240,001**	**-**	**(81,429)**	**-**	**158,572**
Shares issued on exercise of warrants	**60,000**	**27,000**	**-**	**-**	**-**	**27,000**
Shares issued to executive (Note 11)	**100,000**	**42,000**	**-**	**-**	**-**	**42,000**
Share-based compensation	**-**	**-**	**-**	**413,477**	**-**	**413,477**
Loss for the period	**-**	**-**	**-**	**-**	**(3,508,075)**	**(3,508,075)**
Balance, December 31, 2018	**96,386,204**	**$ 22,002,919**	**$ -**	**$2,850,771**	**$(12,469,947)**	**$12,383,743**

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

TRUE LEAF MEDICINE INTERNATIONAL LTD.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Operating activities		
Loss for the period	$(3,508,075)	$ (2,128,262)
Items not affecting cash:		
Depreciation and amortization	119,618	27,535
Accretion	-	8,819
Share-based compensation	455,477	869,360
Inventory write-down	46,733	-
Changes in non-cash working capital items:		
Prepaid expenses and deposits	(112,079)	(129,653)
Accounts payable and accrued liabilities	(119,917)	41,729
Due to related parties	(6,783)	(23,771)
Inventories	109,615	(431,522)
Receivables	(227,677)	(50,053)
Net cash used in operating activities	(3,243,088)	(1,815,818)
Investing activities		
Purchase of capital assets	(44,331)	(120,665)
Intangible asset costs	(76,668)	(29,478)
Expenditures on construction in progress	(5,248,217)	(44,250)
Deposit to purchase land	-	(100,000)
Net cash used in investing activities	(5,369,216)	(294,393)
Financing activities		
Proceeds from issuance of share capital	-	2,322,495
Proceeds from exercise of stock options	158,572	644,579
Proceeds from exercise of warrants	27,000	469,777
Share subscriptions received	-	19,500
Repayment of promissory note	-	(34,820)
Share issue costs	-	(570,378)
Net cash provided by financing activities	185,572	2,851,153
Change in cash and cash equivalents for the period	(8,426,732)	740,942
Cash and cash equivalents, beginning of the period	10,812,815	159,575
Cash and cash equivalents, end of the period	$2,386,083	$ 900,517

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

1. NATURE OF OPERATIONS AND GOING CONCERN

True Leaf Medicine International Ltd. (the "Company") was incorporated under the Business Corporations Act of the Province of British Columbia on June 9, 2014 and is the legal parent of True Leaf Investments Corp. ("TL Investments"), True Leaf Medicine Inc. ("TL Medicine"), True Leaf Pet Inc. ("TL Pet") and True Leaf Pet Europe LLC Sàrl ("TL Pet Europe"). TL Investments, TL Medicine and TL Pet were all incorporated under the Business Corporations Act of the Province of British Columbia on March 26, 2014, July 4, 2013 and November 18, 2015 respectively, and TL Pet Europe was incorporated under the Business Corporation Act in Luxembourg on July 18, 2016. The Company's head office and registered office is located at 200, 1238 Homer Street, Vancouver, BC, V6B 2Y5. On February 9, 2015, the Company began trading on the Canadian Securities Exchange (the "CSE") under the symbol "MJ" and on July 20, 2017 the Company began trading on the OTC under the ticker symbol "TRLFF".

The Company's manufactures and distributes hemp-based nutrition for pets. TL Pet and TL Pet Europe have entered the Canadian, US and European natural pet product market with a product line consisting of hemp functional chews and supplemental products for pets.

The Company, through TL Medicine, is also seeking to become a licensed producer of medicinal cannabis for the Canadian market under the new Cannabis Act (the "Cannabis Act"). The Cannabis Act and related regulations issued pursuant to the Cannabis Act (the "Cannabis Regulations") were implemented on October 17, 2018. As a result, the Company's has migrated its application to the Cannabis Tracking and Licensing System ("CTLS") under the Cannabis Act. The Company is required to satisfy additional obligations in order to qualify, including the completion of a compliant facility on a parcel of land owned by the Company in Lumby, British Columbia (Note 7). There is some risk that the Company will not receive a license, thus rendering the Company unable to proceed with its cannabis business model. The Company continues to work diligently to comply with the requirements of Health Canada.

<u>Going Concern</u>

These condensed consolidated interim financial statements (the "financial statements") have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

For the nine-month period ended December 31, 2018, the Company incurred a loss of $3,508,075 and had an accumulated deficit of $12,469,947. The Company earned revenues of $1,715,775 (2017 - $1,016,667) from TL Pet and TL Pet Europe; although, these two operations have not yet achieved profitability. On February 21, 2019 the Company closed a financing which raised gross proceeds of $4,500,000. After fees and other expenses, the financing provided net proceeds of $4,342,500, which included $250,000 to be set aside in a restricted cash reserve account. The net proceeds will be used to execute the Company's business plan, with focus on growing and expanding the pet business including new products, expanding the distribution capabilities and strengthening the brand. Management believes this financing will provide adequate liquidity to support the Company's continued operations for the ensuing twelve months.

1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue operations. Management has assessed that it has sufficient working capital for the Company to continue operations for the next fiscal year.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34*, Interim Financial Reporting*, using the same accounting policies and methods of application as the audited annual consolidated financial statements of the Company for the year ended March 31, 2018, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), except as described in Note 3 below. Accordingly, certain information and footnote disclosure normally included in annual financial statements have been omitted or condensed.

These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended March 31, 2018.

These condensed interim financial statements were approved by the Company's Board of Directors on February 25, 2019.

(b) Principles of consolidation

These financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These financial statements include the accounts of the Company and its wholly-owned subsidiaries: TL Investments, TL Medicine, TL Pet and TL Pet Europe. All significant intercompany transactions and balances have been eliminated on consolidation.

2. BASIS OF PREPARATION (continued)

(c) Basis of measurement and use of estimates

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value (Note 14). All amounts in the financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. These estimates are, by their nature, uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no significant changes to the estimates and judgements since the year ended March 31, 2018.

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (continued)

(d) Comparative figures

Certain comparative figures have been restated to reflect the quarterly impact of adjustments made in the fourth quarter of the year ended March 31, 2018 and to conform to the current period's presentation, as described below:

	Three months ended December 31, 2017			
	Previously reported	Change		Restated
Sales	$ 268,230	$(2,675)	(i)	$265,555
Cost of sales	(181,024)	(2,657) (14,168)	(i) (ii)	(164,181)
Gross margin	$87,206	$14,168		$101,374
Accounting and legal	143,492	(74,996)	(iii)	68,496
Administrative and office	395,830	(22,500) (6,391)	(iv) (v)	366,939
Selling and marketing	189,919	14,168 (25,777)	(ii) (iii)	178,310
Other operating expenditures	35,328	-		35,328
Total operating expenditures	764,569	(115,496)		649,073
Other income	(6,658)	-		6,658
Loss for the period	$ (670,705)	$(101,328)		$(541,041)

	Nine months ended December 31, 2017			
	Previously reported	Change		Restated
Sales	$1,034,985	$(18,318)	(i)	$1,016,667
Cost of sales	(647,044)	(18,318) (49,697)	(i) (ii)	579,029
Gross margin	$387,941	$49,697		$437,638
Accounting and legal	382,703	(90,882)	(iii)	291,821
Administrative and office	992,463	(44,250) (6,390)	(iv) (v)	941,823
Selling and marketing	807,874	49,697 (446,575)	(ii) (iii)	410,996
Other operating expenditures	935,676	-		935,676
Total operating expenditures	3,118,717	(538,400)		2,580,316
Other income	(14,416)	-		(14,416)
Loss for the period	$(2,716,359)	$588,097		$(2,128,262)

(i) Customer discounts reclassified from cost of sales to sales.
(ii) Sales commissions reclassified from cost of sales to selling and marketing.
(iii) Share issuance costs reclassified to equity in the year ended March 31, 2018.
(iv) Costs previously expensed capitalized to construction in progress in the year ended March 31, 2018.
(v) Costs incurred in prior period; reallocated to correct period.

3. NEW AND FUTURE ACCOUNTING STANDARDS

(a) Adoption of New IFRS Pronouncements

The Company adopted the new IFRS pronouncements listed below as at April 1, 2018, in accordance with the transitional provisions outlined in the respective standards described below.

IFRS 9 – Financial Instruments

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013, new general hedging requirements were added to the standard. In July 2014, the final version of IFRS 9 was issued, which adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics. The Company has assessed the classification and measurement of its financial instruments and deemed the expected credit loss of its financial assets to be insignificant. As such, the implementation of IFRS 9 did not have a material impact on the financial statements.

IFRS 15 – Revenue

The Company has adopted the requirements of IFRS 15 Revenue from Contracts with Customers ("IFRS 15") as of April 1, 2018. The principle of IFRS 15 Revenue is that an entity should recognize revenue to depict the transfer of goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. IFRS 15 introduces a five-step approach to revenue recognition with an entity recognizing revenues when a performance obligation is satisfied, which is when "control" of the goods have transferred to the customer. Upon evaluating the transfer of control, the Company concluded there is no material change in the timing of revenue recognized under the new standard. The point of transfer of risks and rewards for goods and services under IAS 18 compared to the transfer of control under IFRS 15 occur at the same time based on contractual terms. The Company has reviewed the implications of the adoption of IFRS 15 against its customer contracts and concluded the timing and amount of revenue recognized by the Company did not change from the adoption of IFRS 15.

(Expressed in Canadian dollars)

3. NEW AND FUTURE ACCOUNTING STANDARDS (continued)

(b) New standards not yet adopted

The following new standards and amendments to existing standards will be effective in future periods and may impact the reporting and disclosures of the Company:

- IFRS 16 Leases was issued in January 2016 and is effective for periods beginning on or after January 1, 2019. The new standard eliminates the classification of leases as either operating or finance leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Management is currently reviewing the impact that adoption of the new standard will have on the Company's consolidated financial statements.

4. RECEIVABLES

		December 31, 2018		March 31, 2018
Trade receivables (a)	$	249,835	$	202,683
Miscellaneous receivables (b)		152,567		119,770
Goods and services tax receivable		210,946		63,218
	$	**613,348**	**$**	**385,671**

(a) Trade receivables

Trade receivables are non-interest bearing and are due within 30 days. As at December 31, 2018, the Company did not have any trade receivables that were past due.

During the nine-month period ended December 31, 2018, revenues from three distributors amounted to 48% of total sales (December 31, 2017 – two distributors amounted to 29% of total sales). As at December 31, 2018, the top three distributors amounted to 9% of total trade receivables (March 31, 2018 - three distributors amounted to 40%).

(b) Miscellaneous receivables

At December 31, 2018 a past director was indebted to the Company for an amount of $119,770. The Company remitted withholding tax on behalf of the past director in connection with his exercise of stock options in January 2018. The balance is non-interest bearing and payable in full by March 15, 2019. A share purchase agreement has been put in place as security against the amount due.

At December 31, 2018, miscellaneous receivables also included a net amount of $32,797 in connection with rent payable by a third party for space at the Company's Lumby property.

(Expressed in Canadian dollars)

5. INVENTORIES

		December 31, 2018		March 31, 2018
Finished goods	$	284,703	$	432,729
Supplies		117,754		137,865
	$	**402,457**	**$**	**570,594**

During the nine months ended December 31, 2018, the Company recorded a provision of $46,732, included in cost of sales, against finished goods no longer saleable. During the year ended March 31, 2018, the Company wrote off $217,436 associated with supplies and packaging materials that will not be used for current product lines, as well as some finished goods no longer saleable.

6. PREPAID EXPENSES AND DEPOSITS

		December 31,2018		March 31, 2018
Insurance premiums	$	324,089	$	80,791
Marketing fees		68,285		33,505
Prepaid expenses	$	392,374	$	114,296
Construction deposits (Note 7)		128,077		25,827
Security deposits		7,726		9,076
		135,803		34,903
	$	**528,177**	**$**	**149,199**

7. CONSTRUCTION IN PROGRESS

During the year ended March 31, 2018, the Company acquired a property of 40 acres located in Lumby B.C. for total consideration of $3,380,387 to build its cannabis cultivation facility. As at December 31, 2018, construction costs incurred of $6,750,913 (March 31, 2018 - $726,955) are capitalized and depreciation will commence when the facility is available for its intended use.

As at December 31, 2018, prepaid expenses and deposits include a deposit of $128,077 (March 31, 2018 - $25,827), refundable upon completion of the construction project, subject to approval by the Village of Lumby that the Company has complied with conditions set out in its various permits. As at December 31, 2018, the Company has accrued a liability of $509,571 (March 31, 2018 - $98,661) as holdbacks against construction in progress.

(Expressed in Canadian dollars)

8. CAPITAL ASSETS

Cost:	**Office furniture**	**Office equipment**	**Leasehold improvements**	**Total**
Balance, March 31, 2017	$ -	$ 7,642	$ 3,694	$ 11,336
Additions	20,165	42,074	76,235	138,474
Balance, March 31, 2018	20,165	49,716	79,929	149,810
Additions	-	41,513	-	41,513
Balance, December 31, 2018	$ 20,165	$91,229	$79,929	$191,323
Balance, March 31, 2017	$ -	$ 1,786	$ 739	$ 2,525
Depreciation for the year	2,150	4,353	8,362	14,865
Balance, March 31, 2018	2,150	6,139	9,101	17,390
Depreciation for the period	8,066	13,825	31,972	53,863
Balance, December 31, 2018	$10,216	$19,964	$41,073	$ 71,253
Carrying value:				
As at March 31,2018	$18,015	$43,577	$70,828	$132,420
As at December 31, 2018	**$ 9,949**	**$71,265**	**$38,856**	**$120,070**

9. INTANGIBLE ASSETS

Cost:	Website	Trademarks and related costs	Intellectual property	Total
Balance, March 31, 2017	$10,801	$ 80,276	$55,500	$146,577
Additions	-	37,124	-	37,124
Balance, March 31, 2018	10,801	117,400	55,500	183,701
Additions	-	75,410		75,410
Balance, December 31, 2018	$10,801	$192,810	$55,500	$259,111
Balance, March 31, 2017	$ 7,256	$ 5,591	$ 5,550	$ 18,397
Amortization for the year	2,700	11,589	8,325	22,614
Balance, March 31, 2018	9,956	17,180	13,875	41,011
Amortization for the period	845	42,710	22,200	65,755
Balance, December 31, 2018	$10,801	$ 59,890	$36,075	$106,766
Carrying value:				
As at March 31, 2018	$ 845	$100,220	$41,625	$142,690
As at December 31, 2018	**$ -**	**$132,920**	**$19,425**	**$152,345**

(Expressed in Canadian dollars)

10.SHORT TERM NOTE PAYABLE

Pursuant to a commercial insurance premium finance and security agreement dated September 13, 2018, BankDirect Capital Finance, a division of Texas Capital Bank, provided the Company financing of US$75,000 at a rate of 6.49% per annum. The financing is repayable at a rate of US$9,621 per month, ending May 13, 2019. Subsequent to December 31, 2018 this financing was repaid in full.

11.RELATED PARTY BALANCES AND TRANSACTIONS

a) Goods and services

The Company had the following transactions with related parties during the three months and nine months ended December 31, 2018 and 2017:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Paid to the Chief Executive Officer for office space rental	$ 7,500	$ 7,500	$ 22,500	$22,500
Paid to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	$126,577	$68,270	$171,555	$75,891
Paid to Paradigm Medical Services, a company controlled by a past Director, for advisory services	$ -	$ 3,000	$ 56,000	$ 3,000

b) Compensation of key management personnel

The Company considers its key management personnel to be its Directors, Chief Executive Officer and its Chief Financial Officer.

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Director compensation:				
Salaries and consulting fees	$ 22,350	$16,875	$ 59,375	$ 53,625
Share-based compensation	5,529	-	110,771	182,970
	27,879	16,875	170,146	236,595
Management compensation:				
Salaries & management fees	$84,750	21,000	$168,733	63,000
Share-based compensation	46,438	-	149,321	101,650
	$131,188	21,000	318,054	164,650
	$159,067	37,875	$488,200	$401,245

(Expressed in Canadian dollars)

11.RELATED PARTY BALANCES AND TRANSACTIONS (continued)

c) Amount due from a former director of $119,770 included in receivables at December 31, 2018 (March 31, 2018 - $119,770) (Note 4).

d) Amounts payable to related parties as at December 31, 2018 of $nil (March 31, 2018 - $23,314) are unsecured, non-interest bearing with no scheduled terms of repayment.

12.SHARE CAPITAL

a) Authorized

Unlimited	Common voting shares with no par value
Unlimited	Preferred non-voting shares with no par value

b) Issued

The Company had the following share capital transactions during the nine-month period ended December 31, 2017:

1. The Company issued 2,488,759 common shares pursuant to the exercise of stock options for gross proceeds of $644,579.

2. The Company issued 1,628,015 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $469,777.

3. On May 29, 2017, the Company completed a private placement by issuing 3,099,829 units at a price of $0.30 per unit for gross proceeds of $929,950. Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one additional common share at a price of $0.45 per share for a period of two years. No value was assigned to the warrants issued as part of the unit offering. The Company incurred $12,474 in share issue costs associated with this financing.

4. On June 12, 2017, the Company completed a private placement by issuing 4,641,816 units at a price of $0.30 per unit for gross proceeds of $1,392,545. Each unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into one additional common share at a price of $0.45 per share for a period of two years. No value was assigned to the warrants issued as part of the unit offering. The Company incurred $20,447 in share issue costs associated with this financing.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

The Company had the following share capital transactions during the nine-month period ended December 31, 2018:

1. The Company issued 100,000 common shares pursuant to an employment agreement. The shares were valued at $42,000 based on the market price of the share issue date, which is included in stock compensation expense for the three and nine months ended December 31, 2018. The shares issued are to be held on a restricted basis for one year from the issue date of October 17, 2019.

2. The Company issued 60,000 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $27,000.

3. The Company issued 857,145 common shares pursuant to the exercise of share options for gross proceeds of $158,572.

c) Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2017	1,816,398	$0.15
Warrants expired	(410,806)	0.15
Warrants exercised	(3,707,000)	0.34
Warrants issued	8,598,788	0.51
Balance, March 31, 2018	**6,297,380**	**$0.53**
Warrants exercised	**(60,000)**	**0.45**
Balance, December 31, 2018	**6,237,380**	**$0.53**

As at December 31, 2018, the following share purchase warrants are outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
2,354,254	0.45	May 29, 2019
3,025,983	0.45	June 12, 2019
857,143	1.05	November 21, 2020
6,237,380		

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

d) Stock options

The Company has a Stock Option Plan (the "Plan") in place under which it is authorized to grant options to directors, executive officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company in any twelve-month period. Under the Plan, the exercise price of each stock option is subject to a minimum of $0.10 and may not be less than the closing market price of Company's common shares on the trading day immediately preceding the date of grant of the options. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2017	3,149,995	$0.18
Stock options exercised	(3,342,580)	0.25
Stock options expired	(100,270)	0.12
Stock options granted	6,200,000	0.57
Balance, March 31, 2018	**5,907,145**	**$0.55**
Stock options exercised	(857,145)	0.40
Stock options granted	1,985,000	0.53
Stock options forfeited	(925,000)	0.65
Balance, December 31, 2018	**6,110,000**	**$0.58**

As at December 31, 2018, the following stock options are outstanding and exercisable:

Number of Options			
Outstanding	Exercisable	Exercise Price ($)	Expiry Date
2,250,000	2,250,000	0.40	May 29, 2019
300,000	300,000	0.45	July 18, 2019
100,000	100,000	0.94	February 6, 2020
1,475,000	850,000	0.94	February 6, 2023
935,000	450,000	0.50	July 31, 2023
1,050,000	-	0.56	September 10, 2023
6,110,000	**3,950,000**		

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

The fair value of stock options granted during the period was determined using the following weighted average assumptions at the time of grant using the Black-Scholes option pricing

	Nine months ended December 31, 2018	Year ended March 31, 2018
Risk free annual interest rate	**2.22%**	1.20%
Expected annual dividend rate	**0%**	0%
Expected stock price volatility	**93%**	96%
Expected life of options	**5 years**	2.9 years
Estimated forfeiture rate	**0%**	0%

Volatility was estimated by using the average historical volatility of the Company. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

The weighted average fair value of stock options granted during the nine months ended December 31, 2018 was $0.38 (year ended March 31, 2018 - $0.36) per option. As at December 31, 2018, stock options outstanding have a weighted average remaining contractual life of 2.7 years (March 31, 2018 – 2.3 years).

13.ADMINISTRATIVE AND OFFICE EXPENSE

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Application cost	**$ 18,435**	$ -	**$ 50,235**	$ -
Filing fees	**4,780**	2,520	**27,481**	65,417
Insurance	**57,850**	40,355	**146,256**	52,263
Office supplies	**109,405**	29,356	**226,586**	75,454
Property tax expense	**18,819**	-	**71,025**	-
Rent	**25,846**	17,255	**55,698**	42,764
Transfer agent	**7,403**	1,964	**36,771**	11,252
Travel and meals	**127,352**	57,045	**241,746**	124,543
Utilities	**6,642**	768	**17,463**	2,193
Wages and salaries	**423,845**	217,676	**1,236,976**	567,937
	$800,377	$366,939	**$2,110,236**	941,823

10. FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT

Fair Value

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

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

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The carrying value of receivables, accounts payable and accrued liabilities, short term financing and due to related parties approximates their fair value because of the short-term nature of these instruments.

The fair values of cash and cash equivalents are measured based on level 1 inputs of the fair value hierarchy. Cash equivalents consists of $103,500 in guaranteed investment certificate held at a chartered financial institution.

Risk

The Company is exposed to various risks through its financial instruments and has a risk management framework to monitor, evaluate and manage these risks. The following analysis provides information about the Company's risk exposure and concentration as of December 31, 2018:

<u>Credit risk</u>

Credit risk refers to the risk that another entity will default on its contractual obligations which will result in a loss for the Company. At December 31, 2018, the Company's exposure to credit risk consists of the carrying value of cash and cash equivalents, and receivables. The Company limits its credit exposure on cash by holding its deposits with established financial institutions. Accounts receivable consists of trade accounts receivable and miscellaneous receivables. The Company mitigates the risk of default of accounts receivable by assessing the credit worthiness of customers prior to sale and shipment of inventory.

<u>Liquidity risk</u>

Liquidity risk arises from our general and capital financing needs with respect to future growth and the Company's construction of its cannabis cultivation facility (Note 7). Liquidity risk could arise if the Company encounters difficulty in meeting future obligations with financial liabilities. As at December 31, 2018, the Company has cash and cash equivalents of $2,386,083 (March 31, 2018 - $10,812,815) to settle current liabilities of $1,950,037 (March 31, 2018 - $1,049,962). The Company has planning, budgeting and forecasting processes to help determine its funding requirements to meet various contractual and other obligations and to manage liquidity risk.

14. FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)

Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company is exposed to currency risk arising from the translation of its European subsidiary's operations and to currency transaction risk as some of the Company's financial instruments are denominated in U.S. dollars. The results of the Company's operations are subject to currency translation and transaction risks.

The Company's main risk is associated with fluctuations in Canadian and U.S. dollars and Euros. Assets and liabilities are translated based on the Company's foreign currency translation policy.

The Company has determined that, with other variables unchanged, the effect of a 10% increase in the Canadian dollar as at December 31, 2018:

- against the Euro on its net European operations, and
- against the U.S. dollar on financial assets and liabilities, including cash, accounts receivable, accounts payables and accrued liabilities denominated in U.S. dollars

would result in an increase of approximately $44,000 to the net loss and comprehensive loss for the nine-months ended December 31, 2018 (2017 – decrease of approximately $23,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

At December 31, 2018, the Company had no hedging agreements in place with respect to foreign exchange rates as the Company's operations provide a natural hedge. Certain operational costs are denominated in U.S. dollars and funded directly from the Company's U.S. funds. The Company's European operation provides further natural hedging as U.S. dollars are used to periodically fund operations. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. Management monitors fluctuations in foreign currency rates to maximize conversion of U.S. dollars to Canadian dollars.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risk from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. As at December 31, 2018, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

Capital Management

The Company's capital includes share capital and the accumulated deficit. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares in order to meet its financial obligations. The Company has not changed its approach to capital management during the six-months ended December 31, 2018.

15.COMMITMENTS

The Company had the following commitments as of December 31, 2018:

1. On February 1, 2016, the Company (through TL Pet) entered into an agreement with Pet Horizons Ltd., UK ("Pet Horizons") whereby Pet Horizons will develop strategic plans to launch the TL Pet products in Europe for an initial term ending June 2019. The sales territory includes the European Union, Switzerland and Norway, as well as central and eastern Europe including Russia, Ukraine and Belarus. At December 31, 2018, the Company is negotiating the terms of a new agreement with Pet Horizons and is paying an interim monthly fee of approximately $9,000 (EUR6,000).

2. Effective November 1, 2018, the Company entered into an updated agreement with a branding and market positioning expert to provide the Company with consulting services in connection with the Company's brand that has a minimum cost of $15,000 per month. The agreement has a one-year term ending October 31, 2019 with automatic renewal for two consecutive one-year terms, cancellable with 60 days-notice by either party and payment of the prorated portion of the fees due.

3. The Company has an employment agreement with a senior executive which includes provision for severance pay if the individual is terminated without cause or due to a change in control. The Company incurs the following obligation based on the salary agreed to:

    a. Terminated prior to September 10, 2020 - $195,000 plus accrued bonus; or
    b. Terminated after September 10, 2020 - $292,500 plus accrued bonus.

16.SEGMENTED INFORMATION

Operating segmented information

As at December 31, 2018, the Company had three reportable segments, being the sale of hemp-based nutrition for pets ("Pet"), the planned sale of medical marijuana under the Cannabis Act, ("Medicine") and "Corporate". The Corporate segment is responsible for treasury management, regulatory reporting, financial and legal administration and general corporate activities conducted in Canada, Europe and U.S. The Company has identified these reporting segments based on the internal reports reviewed and used by the Chief Executive Officer, its chief decision maker, in allocating resources and assessing performance. Operating segments whose revenue, earnings, losses or assets that exceed 10% of the total consolidated revenue, earnings, losses or assets are reportable segments.

(Expressed in Canadian dollars)

16. SEGMENTED INFORMATION (continued)

Operating segmented information is presented as follows:

As at December 31, 2018	Pet	Medicine	Corporate	Total
Current assets	$1,013,647	$ 367,629	$2,548,789	$ 3,930,065
Non-current assets	170,187	10,233,528	-	10,403,715
Total assets	1,183,834	10,601,158	2,548,789	14,333,780
Liabilities	(297,346)	(1,120,693)	(531,998)	(1,950,037)
Net assets	$886,488	$9,480,464	$2,016,791	$12,383,743

Nine-months ended December 31, 2018				
	Pet	Medicine	Corporate	Total
Revenues	$1,715,775	$ -	$ -	$ 1,715,775
Gross profit	770,878	-	-	770,878
Operating expenses	1,836,482	424,427	2,157,637	4,418,546
Loss and comprehensive loss	$(962,052)	$(363,918)	$(2,182,105)	$(3,508,075)

Three-months ended December 31, 2018				
	Pet	Medicine	Corporate	Total
Revenues	$ 652,370	$ -	$ -	$ 652,370
Gross profit	283,709	-	-	283,709
Operating expenses	777,468	144,790	706,766	1,629,025
Loss and comprehensive loss	$(502,154)	$(110,490)	$(699,445)	$(1,312,089)

As at March 31, 2018	Pet	Medicine	Corporate	Total
Current assets	$1,054,069	$ 211,549	$10,652,661	$11,918,279
Non-current assets	229,085	4,153,367	-	4,382,452
Total assets	1,283,154	4,364,916	10,652,661	16,300,731
Liabilities	(227,118)	(488,808)	(334,036)	(1,049,962)
Net assets	$1,056,036	$3,876,108	$10,318,625	$15,250,769

As at and for the three and nine-months ended December 31, 2017, the Company had one operating segment, being the sale of hemp-based nutrition for pets in North America and Europe, which accounted for all of the Company's revenues from inception to date. Therefore, comparative information as at and for the three and nine-months ended December 31, 2017 is not presented.

(Expressed in Canadian dollars)

16. SEGMENTED INFORMATION (continued)

Geographic segmented information

The Company operates in two main geographic locations, North America and Europe, selling hemp-based nutrition for pets in North America and Europe, which has accounted for all of the Company's revenues since its inception.

As at December 31, 2018	North America	Europe	Total
Current assets	$ 3,736,233	$193,832	$ 3,930,065
Non-current assets	10,357,214	46,501	10,403,715
Liabilities	(1,861,836)	(88,201)	(1,950,037)
Total net assets	$12,231,611	$152,132	$12,383,743
Revenues:			
Nine-months December 31, 2018	$1,424,338	$291,437	$1,715,775
Three-months ended December 31, 2018	$538,887	$113,483	$652,370

As at March 31, 2018	North America	Europe	Total
Current assets	$11,753,046	$165,233	$11,918,279
Non-current assets	4,374,765	7,687	4,382,452
Liabilities	(987,060)	(62,902)	(1,049,962)
Total net assets	$15,140,751	$110,018	$15,250,769

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to December 31, 2018:

a) On February 21, 2019 the Company closed a financing which raised gross proceeds of $4,500,000 and net proceeds, after fees and other expenses, of $4,342,500 (the "Investment") with Lind Asset Management, LLC, a New York-based institutional fund manager (the "Investor"). The Investment will have a term of 24 months and is repayable at any-time by the Company, subject to the Investor having the right to convert 25% of the amount outstanding into common shares. The security has a $5,400,000 face value and is comprised of a principal amount of $4,500,000 and a pre-paid interest amount of $900,000. The pre-paid interest amount will be reduced by $450,000 if the Investment is paid back within twelve months.

b) On February 5, 2019, holders of 3,223,227 of the Company's warrants expiring on May 29, 2019 and June 12, 2019, consented to repricing of the exercise price of their warrants from $0.45 per share to $0.355 per share. In accordance with Canadian Securities Exchange (CSE) rules, the repriced warrants are subject to an accelerated expiry date, if, for any 10 consecutive trading days the closing price of the Company's shares on the CSE exceeds $0.44375. Should this occur, the Company must issue a press release announcing the accelerated expiry of the warrants, and the term of the warrants will be reduced to 30 days commencing seven days from the end of such 10 consecutive trading day period.