# True Leaf Brands Inc.
# (formerly True Leaf Medicine International Ltd.)
# Consolidated Financial Statements
# Years ended March 31, 2019 and 2018

(Expressed in Canadian dollars)

# Independent Auditor's Report

To the Shareholders of True Leaf Brands Inc. (formerly True Leaf Medicine International Ltd.)

## Opinion

We have audited the consolidated financial statements of True Leaf Brands Inc. (the "Company"), which comprise the consolidated statement of financial position as at March 31, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

## Basis for Opinion

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

## Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that the Company incurred a loss of $5.5 million during the year ended March 31, 2019 and, as of that date, had an deficit of $14.5 million. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Other Matter

The financial statements of the Company for the year ended March 31, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on June 26, 2018.

## Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report on Form 1-K.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joanna Pearson.

***/s/ Deloitte LLP***

Chartered Professional Accountants
Vancouver, British Columbia
July 29, 2019

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
True Leaf Brands Inc. (formerly True Leaf Medicine International Ltd.)

***Opinion on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of True Leaf Brands Inc. (formerly True Leaf Medicine International Ltd.) (the "Company"), which comprise the consolidated statement of financial position as of March 31, 2018, the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year ended March 31, 2018 and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the consolidated financial statements).

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2018 and its financial performance and its cash flows for the year ended March 31, 2018 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Basis for Opinion***

***A - Management's Responsibility for the consolidated Financial Statements***

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

***B - Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

An audit includes performing procedures to assess the risks of material misstatements of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included obtaining and examining, on a test basis, audit evidence regarding the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies and principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our audit opinion.

***Other Matters***

We have served as the Company's auditor since 2014.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

June 26, 2018

**TRUE LEAF BRANDS INC.**
**Consolidated Statements of Financial Position**
**March 31, 2019 and 2018**
(Expressed in Canadian dollars)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Current | | | |
| Cash and cash equivalents | | $4,391,072 | $10,812,815 |
| Short term investments | | 57,500 | - |
| Trade and other receivables | 5 | 632,223 | 385,671 |
| Inventories | 6 | 332,088 | 570,594 |
| Prepaid expenses and deposits | 7 | 417,243 | 149,199 |
| | | 5,830,126 | 11,918,279 |
| Land | 8 | 3,380,387 | 3,380,387 |
| Property, plant and equipment | 8 | 7,730,894 | 859,375 |
| Intangible assets | 9 | 155,508 | 142,690 |
| Other assets | 10 | 250,000 | - |
| **Total assets** | | $17,346,915 | $16,300,731 |
| **Liabilities** | | | |
| Current | | | |
| Accounts payable and accrued liabilities | | $1,635,337 | $927,987 |
| Construction holdback payable | 8 | 24,492 | 98,661 |
| Due to related parties | 11d | - | 23,314 |
| Current portion convertible note payable | 10 | 2,000,000 | - |
| Total current liabilities | | 3,659,829 | 1,049,962 |
| Convertible note payable | 10 | 1,808,056 | - |
| Total liabilities | | 5,467,885 | 1,049,962 |
| **Shareholders' equity** | | | |
| Share capital | 12 | 22,689,173 | 21,693,918 |
| Reserves | | 3,660,877 | 2,518,723 |
| Deficit | | (14,471,020) | (8,961,872) |
| Total shareholders' equity | | 11,879,030 | 15,250,769 |
| **Total liabilities and shareholders' equity** | | $17,346,915 | $16,300,731 |

Nature of operations and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 19)

Approved on behalf of the Board of Directors on July 16, 2019

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

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

**TRUE LEAF BRANDS INC.**
**Consolidated Statements of Loss and Comprehensive Loss**

(Expressed in Canadian dollars)

| | Notes | Year Ended March 31, 2019 | 2018 |
|---|---|---|---|
| Sales | | $2,311,036 | $1,400,511 |
| Cost of sales | | (1,252,265) | (779,182) |
| Gross profit | | **1,058,771** | 621,329 |
| Operating Expenditures | | | |
| Accretion expense | 10 | 126,050 | 18,079 |
| Administrative and office | 13 | 3,232,156 | 1,882,495 |
| Amortization and depreciation | 8,9 | 124,153 | 37,479 |
| Inventory write-down | 6 | 41,288 | 217,436 |
| Research and development | | 139,187 | 57,808 |
| Selling and marketing | 14 | 2,164,057 | 760,117 |
| Share-based compensation | 12 | 998,387 | 1,836,441 |
| Total operating expenditures | | (6,825,278) | (4,809,855) |
| Loss from operations | | (5,766,507) | (4,188,526) |
| Other income | | 84,096 | 18,215 |
| Foreign exchange gain | | 173,263 | 202,425 |
| Write-down of marketable securities | | - | (50) |
| **Loss and comprehensive loss for the year** | | **$(5,509,148)** | $(3,967,936) |
| Loss per common share – basic and diluted | | $(0.06) | $(0.05) |
| Weighted average number of common shares outstanding – basic and diluted | | 95,754,434 | 78,314,081 |

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

# TRUE LEAF BRANDS INC.

## Consolidated Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

| | Number of Shares | Share Capital | 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 | 2,289,573 | - | - | 2,289,573 |
| Regulation A public offering, net of share issuance costs | 14,285,715 | 7,764,545 | 789,767 | | 8,554,312 |
| Private placement, Canadian side car, net of share issuance costs | 5,864,736 | 4,021,459 | - | - | 4,021,459 |
| Shares issued on exercise of stock options | 3,342,580 | 1,283,415 | (439,770) | - | 843,645 |
| Shares issued on exercise of warrants | 3,707,000 | 1,246,472 | - | - | 1,246,472 |
| Fair value adjustment on expiry of stock options | - | - | (7,517) | 7,517 | - |
| Share-based compensation | - | - | 1,836,441 | - | `1,836,441 |
| Loss for the year | - | - | - | (3,967,936) | (3,967,936) |
| **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 | 1,128,317 | 406,254 | - | - | 406,254 |
| Shares subscribed on exercise of warrants; shares not issued | - | 14,000 | - | - | 14,000 |
| Shares issued to executives and consultants (Note 12) | 600,000 | 335,000 | - | - | 335,000 |
| Fair value of warrants issued and equity component of convertible debt | - | - | 560,196 | - | 560,196 |
| Share-based compensation | - | - | 663,387 | | 663,387 |
| Loss for the year | - | - | - | (5,509,148) | (5,509,148) |
| **Balance, March 31, 2019** | **97,954,521** | **$22,689,173** | **$3,660,877** | **$(14,471,020)** | **$11,879,030** |

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

# TRUE LEAF BRANDS INC.
**Consolidated Statements of Cash Flows**
(Expressed in Canadian dollars)

| | Year ended March 31, | |
|---|---|---|
| | **2019** | 2018 |
| **Operating activities** | | |
| Loss for the year | $(5,509,148) | $(3,967,936) |
| Items not affecting cash: | | |
| Accretion expense | 126,050 | 18,079 |
| Amortization and depreciation | 124,153 | 37,479 |
| Share-based compensation | 998,387 | 1,836,441 |
| Inventory write-down | 41,288 | 217,436 |
| Write-down of marketable securities | - | 50 |
| Changes in non-cash working capital items: | | |
| Prepaid expenses and deposits | (268,044) | (133,279) |
| Accounts payable and accrued liabilities | 216,742 | 509,534 |
| Due to related parties | (6,783) | (2,717) |
| Inventories | 163,627 | (351,318) |
| Trade and other receivables | (246,552) | (319,492) |
| Net cash used in operating activities | $(4,360,280) | $(2,155,723) |
| **Investing activities** | | |
| Additions to property, plant and equipment | (6,491,425) | (3,971,637) |
| Intangible asset costs | (83,568) | (47,185) |
| Increase in short-term investments and restricted cash | (307,500) | - |
| Net cash used in investing activities | $(6,882,493) | $(4,018,822) |
| **Financing activities** | | |
| Proceeds from issuance of share capital | 578,826 | 18,464,265 |
| Proceeds from issuance of convertible debenture, net of issue costs | 4,242,204 | - |
| Repayment of promissory note | - | (127,676) |
| Share issue costs | - | (1,508,804) |
| Net cash provided by financing activities | $4,821,030 | $16,827,785 |
| Change in cash and cash equivalents for the year | (6,421,743) | 10,653,240 |
| Cash and cash equivalents, beginning of the year | 10,812,815 | 159,575 |
| Cash and cash equivalents, end of the year | $4,391,072 | $10,812,815 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

True Leaf Brands Inc. (formerly True Leaf Medicine International Ltd.) (the "Company" or "True Leaf") 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 Cannabis Inc. ("TL Cannabis"), True Leaf Pet Inc. ("TL Pet") and True Leaf Pet Europe LLC Sàrl ("TL Pet Europe"). TL Investments, TL Cannabis 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.

On May 21, 2019, subsequent to year end, the Company changed the name of True Leaf Medicine International Ltd. to True Leaf Brands Inc., and changed the name of its subsidiary, True Leaf Medicine Inc., to True Leaf Cannabis Inc. The legal and organizational structure was not altered as part of these name changes.

The Company's shares trade on the Canadian Securities Exchange (the "CSE") under the symbol "MJ", the OTC Market Group's OTCQX International Market under the ticker symbol "TRLFF" and the Frankfurt Stock Exchange under the symbol "TLA". The Company's head office and registered office is located at 200, 1238 Homer Street, Vancouver, BC, V6B 2Y5.

The Company 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 Cannabis, 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 8). 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.

## 1. NATURE OF OPERATIONS AND GOING CONCERN (continued)

Going Concern

These consolidated financial statements (the "financial statements") have been prepared on a 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 year ended March 31, 2019, the Company incurred a loss of $5,509,148 and, as of that date, had a deficit of $14,471,020. The Company earned revenues of $2,311,036 (2018 - $1,400,511) from TL Pet and TL Pet Europe, however, these two subsidiaries 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 $4,242,204 which included $250,000 to be set aside in a restricted cash reserve account. The net proceeds are being used to execute the Company's business plan, with a focus on growing and expanding the pet business including the introduction of new products, expanding the Company's distribution capabilities and strengthening the brand. Additional financing may be required in the future for management to pursue its strategic objectives and there can be no assurances that the Company will be successful in obtaining additional financing. If the Company is unable to raise the necessary financing and generate sufficient cash flows to meet obligations as they come due, the Company may, at some point, be required to reduce its operations. As such, there are material uncertainties that raise substantial doubt/may cast significant doubt about the Company's ability to continue as a going concern.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue operations.

## 2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") ("IFRS"). These consolidated financial statements were approved by the Company's Board of Directors on July 29, 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 Cannabis, TL Pet and TL Pet Europe. All intercompany transactions and balances have been eliminated on consolidation.

## 2. BASIS OF PREPARATION (continued)

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value (Note 15). The accounting policies set out below have been applied consistently to all periods presented in these financial statements with the exception of the change in accounting policies noted below.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of each of the entities in the group is the Canadian dollar, except for TL Pet Europe which has the Euro as its functional currency. The functional currency determinations were conducted through an analysis of the factors identified in International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates.

The presentation currency of the Company is the Canadian dollar. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statement of loss and comprehensive loss.

(b) Financial instruments

Financial assets and liabilities are recognized when the Company or its subsidiaries become party to the contractual provisions of the instrument. On initial recognition, all financial assets and liabilities are recorded at fair value, net of transaction costs, except for financial assets and liabilities classified as at fair value through profit and loss ("FVTPL"). The directly attributable transaction costs related with financial assets and liabilities recorded at FVTPL are expensed in the period they are incurred.

Subsequent measurement of financial assets and liabilities depends on the classification of such assets and liabilities. The classification of financial assets is generally based on its contractual cash flow characteristics and the business model in which it is managed.

(i) Financial assets at amortized cost

Financial assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows, and the contractual terms of the asset give rise on specified dates to cash

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

flows that are solely payments of principal and interest are classified and measured subsequently at amortized cost.

(ii) Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets that are held within a business model whose objective is achieved by collecting the contractual cash flows and selling financial assets, and the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest are classified and measured at FVTOCI.

On initial recognition, the Company may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation of FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measure at FVTOCI and the cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to retained earnings.

(iii) Financial assets at fair value through profit or loss

All other financial assets are measured at FVTPL. These assets are measured at fair value at the end of each reporting period, with any gain or loss recognized in earnings.

(iv) Impairment and Write-off

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of the expected credit loss is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

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

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(v) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after reducing all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

(vi) Compound instruments

The component parts of convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to deficit. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

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

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible loan notes using the effective interest method.

(vii) Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Group, are measured in accordance with the specific accounting policies set out below.

(viii) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss.

(ix) Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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

(x) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss.

(xi) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(xii) Derivative financial instruments

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(xiii) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in hybrid contracts with hosts that are financial liabilities are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL. An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and/or with original maturities of three months or less. The cash and cash equivalent balance at March 31, 2019 includes $4,391,072 of cash and $46,000 of cash equivalents (2018: $10,812,815 of cash and $nil of cash equivalents). Those short-term investments with maturities of one-year or less, but greater than 90 days, are classified as short-term investments. These investments are redeemable at any-time without penalty.

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

(d) Inventories

Inventories include finished goods and supplies in respect of hemp-based nutrition for pets. The classification of inventories is determined by the stage in the manufacturing process. Finished goods inventories are valued based on the lower of actual production costs incurred or estimated net realizable value. Production costs include all direct manufacturing costs, freight, labour and other costs to deliver inventory to our distribution locations. Cost is determined using the weighted average cost basis. Supplies are valued at the lower of average cost or net realizable value. If carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances which caused it no longer exist.

(e) Property, Plant and Equipment

Capital assets are carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the straight-line method at the following rates:

Building – 10 to 40 years
Leasehold improvements – 5 years
Office furniture and equipment – 5 years
Tradeshow booth – 5 years

The Company's capital assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

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

(f) Intangible assets

The Company owns intangible assets consisting of various direct costs associated with the acquisition of trademarks and intellectual property, as well as website costs. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangible assets with indefinite lives.

Amortization is recognized using the straight-line method at the following rates:

Trademarks and related costs – 5-10 years
Website costs – 3 years
Intellectual property – 5 years

(g) Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

(h) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their estimated fair value. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

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

(i) Share-based payments

Options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

On vesting, share-based payments are recorded as an operating expense and as reserves. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed from reserves and charged against deficit.

(j) Earnings (loss) per share

The Company presents basic and diluted earnings(loss) per share (“EPS”) data for its common shares, calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of common shares issued and outstanding during the period. Diluted EPS is calculated by adjusting the profit or loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares. The calculation of diluted EPS assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. For the periods presented, the calculation proved to be anti-dilutive as the Company was in a loss position.

(k) Revenue recognition and related costs

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Revenue from sale of goods, as presented in the consolidated statement of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts, and allowances for customer returns. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer. Indicators of a transfer of control include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer.

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

(l) Cost of sales

Cost of sales includes inventory, product-related costs and costs to ship products to customers.

(m) Selling and marketing

Selling and marketing expenses include costs attributable to the sale of pet products and include salaries, fees and commissions for the related staff. Marketing expenses also include costs associated with the True Leaf corporate brand.

(n) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax assets and liabilities 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 profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

(o) Segmented information

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating segment results are reviewed regularly by the Company's President and Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess performance, for which discrete financial information is available.

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

(p) 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.

*(q)* 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 July 2014, the IASB issued the final version of IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 as they relate to the Company include the following:

- Subsequent to initial measurement at fair value, all recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost in subsequent periods. Financial assets that have a business model whose objective is achieved by both collecting the contractual cash flows and selling financial assets are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at fair value through profit and loss ("FVTPL") in subsequent accounting periods. Transaction costs for financial assets held at FVTPL are expensed, for all other financial assets, they are recognized at fair value at initial measurement less any directly attributable transaction costs.

- Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the balance sheet subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities and convertible note payable are classified as other financial liabilities and carried on the balance sheet at amortized cost.

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

- For the impairment of financial assets, IFRS 9 requires an 'expected credit loss' model to be applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

*Impacts of change in accounting policy*

- None of the Company's classification of its financial instruments have changed significantly as a result of the adoption of the new standard under a retrospective basis without the restatement of the comparative period.
- The Company has assessed the impairment of its receivables using the expected credit loss model, and no material difference was noted, and no impairment has been recognized upon transition at April 1, 2018 or at March 31, 2019.
- There are no transitional impacts regarding financial liabilities in regards to classification and measurement.

*IFRS 15 – Revenue*

In May 2014, the IASB approved IFRS 15, Revenue from Contracts with Customers, which specifies how and when entities recognize revenue, as well as requires entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue related interpretations. IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions, for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

The Company adopted IFRS 15 on a modified retrospective basis effective April 1, 2018. Based on a review of its customer contracts, the Company concluded that the adoption of IFRS 15 did not have a material impact on the timing or amount of revenue recognized by the Company.

## 4. USE OF ESTIMATES AND JUDGMENTS

The preparation of these consolidated 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 consolidated 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 consolidated 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.

## 4. USE OF ESTIMATES AND JUDGMENTS (continued)

(a) Estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and include, but are not limited to, the following:

- Share-based payments and compensation
  The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating the fair value for share- based payment transactions and the resulting share-based compensation expense is based on a variety of assumptions, including the expected life, risk-free interest rates, volatility, and forfeiture rates.

- Amortization rates for intangible assets
  Amortization expenses are calculated based on assumed intangible asset lives. Should the intangible asset life or amortization rates differ from the initial estimate, an adjustment would be made in the consolidated statement of loss and comprehensive loss.

- Valuation of convertible note
  At the issue date of the convertible note, the fair value of the liability component was estimated using the prevailing market interest rates for similar non-convertible instruments for the Company. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion, buyback, or on the instrument's maturity date.

(b) Critical judgements

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

- Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of the functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

(Expressed in Canadian dollars)

## 5. RECEIVABLES

| | | March 31, 2019 | | 2018 |
|---|---|---|---|---|
| Trade receivables (a) | $ | 217,462 | $ | 202,683 |
| Miscellaneous receivables (b) | | 109,832 | | 119,770 |
| Goods and services tax receivable | | 304,929 | | 63,218 |
| | **$** | **632,223** | **$** | **385,671** |

(a) Trade receivables

Trade receivables are non-interest bearing and are due within 30 days. As at March 31, 2019, the Company did not have any trade receivables that were past due (2018: $nil).

During the year ended March 31, 2019, revenues from three distributors amounted to 40% of total sales (March 31, 2018: 39% from three distributors). As at March 31, 2019, these top three distributors amounted to 34% of total trade receivables (March 31, 2018 - three distributors amounted to 29% of total trade receivables).

(b) Miscellaneous receivables

At March 31, 2019, certain management and a director were indebted to the Company $72,335 for withholding taxes remitted on their behalf in connection with common shares issued as an employment benefit and director fees paid. The balance is non-interest bearing and will be repaid in full by September 30, 2019. Miscellaneous receivables also included an amount of $37,497 in connection with rent receivable from a third party for space at the Company's Lumby property.

At March 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 was repaid in full in March 2019.

## 6. INVENTORY

| | March 31, 2019 | 2018 |
|---|---|---|
| Finished goods | $173,410 | $432,729 |
| Supplies | 158,678 | 137,865 |
| | **$332,088** | **$570,594** |

The cost of inventories recognized as an expense in the year ended March 31, 2019 was $1,252,265 and is included in cost of sales (2018: $779,182). During the year ended March 31, 2019 the Company wrote off $41,288 (2018: $217,436) associated with supplies and packaging materials that will not be used for current product lines, as well as recognized a provision of $107,900 for finished goods which were determined to no longer be saleable.

(Expressed in Canadian dollars)

## 7. PREPAID EXPENSES AND DEPOSITS

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Insurance premiums | $156,636 | $ 80,791 |
| Other | 124,804 | 33,505 |
| Prepaid expenses | 281,440 | 114,296 |
| | | |
| Construction deposits (Note 8) | 128,077 | 25,827 |
| Security deposits | 7,726 | 9,076 |
| | 135,803 | 34,903 |
| | **$417,243** | **$149,199** |

As at March 31, 2019, prepaid expenses include a deposit of $128,077 (March 31, 2018 - $25,827) paid in connection with construction of the Company's cannabis production facility in Lumby. The deposit is refundable subject to approval by the Village of Lumby that the Company has complied with conditions set out in its various permits.

## 8. PROPERTY, PLANT AND EQUIPMENT

| **Cost:** | **Building** | **Leasehold improvements** | **Office furniture** | **Equipment** | **Trade show booth** | **Total** |
|---|---|---|---|---|---|---|
| Balance, March 31, 2017 | $ - | $ 3,694 | $ - | $ 7,642 | $ - | $ 11,336 |
| Additions | 726,955 | 76,235 | 20,165 | 42,074 | - | 865,429 |
| Balance, March 31, 2018 | 726,955 | 79,929 | 20,165 | 49,716 | $ - | 876,765 |
| Additions | 6,779,214 | - | - | 59,403 | 86,765 | 6,925,382 |
| Balance, March 31, 2019 | $7,506,169 | $79,929 | $20,165 | $109,119 | $86,765 | $7,802,147 |
| | | | | | | |
| **Accumulated depreciation:** | | | | | | |
| Balance, March 31, 2017 | $ - | $ 739 | $ - | $ 1,786 | $ - | $ 2,525 |
| Depreciation for the year | - | 8,362 | 2,150 | 4,353 | - | 14,865 |
| Balance, March 31, 2018 | - | 9,101 | 2,150 | 6,139 | $ - | 17,390 |
| Depreciation for the year | - | 31,972 | 8,066 | 13,825 | $ - | 53,863 |
| Balance, March 31, 2019 | $ - | $41,073 | $10,216 | $ 19,964 | $ - | $ 71,253 |
| | | | | | | |
| **Carrying value:** | | | | | | |
| As at March 31,2018 | $ 726,955 | $70,828 | $18,015 | $ 43,577 | $ - | $ 859,375 |
| **As at March 31, 2019** | **$7,506,169** | **$38,856** | **$ 9,949** | **$ 89,155** | **$86,765** | **$7,730,894** |

During the year ended March 31, 2018, the Company acquired a 40 acre property located in Lumby B.C. for total consideration of $3,380,387 to build its cannabis cultivation facility, which is classified as land in the statement of financial position.

(Expressed in Canadian dollars)

## 8. PROPERTY, PLANT AND EQUIPMENT (continued)

Construction of the Company's building was completed in March 2019, with total construction costs of $7,506,169 being capitalized until the building is ready for its intended use as a licensed producer and grower of cannabis under the Cannabis Act. Depreciation will commence when the facility is available for its intended use.

As at March 31, 2019, the Company was awaiting approval of its application to become a licensed producer.

As at March 31, 2019, the Company has a liability of $24,492 (March 31, 2018 - $98,661) related to holdbacks against final construction costs and a balance of $679,632 in costs on the Lumby building that were in accounts payable.

## 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 | - | 83,108 | - | 83,108 |
| Balance, March 31, 2019 | $10,801 | $200,508 | $55,500 | $269,809 |
| | | | | |
| Accumulated amortization: | | | | |
| 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 year | 845 | 47,245 | 22,200 | 70,290 |
| Balance, March 31, 2019 | $10,801 | $64,425 | $36,075 | $111,301 |
| | | | | |
| **Carrying value:** | | | | |
| As at March 31, 2018 | $845 | $100,220 | $41,625 | $142,690 |
| **As at March 31, 2019** | **$ -** | **$136,083** | **$19,425** | **$155,508** |

(Expressed in Canadian dollars)

## 10. CONVERTIBLE NOTES

On February 21, 2019, the Company completed a private placement of secured convertible notes for gross proceeds of $4,500,000, of which $250,000 is set aside in cash in a restricted bank account pursuant to the terms of the Convertible Security Funding Agreement ("CFSA"). The maturity date of the debenture is February 21, 2021. Upon maturity, the Company is required to repay $5,400,000, consisting of the principal amount of $4,500,000 (the Principal) plus interest costs of $900,000. The Company has the right to buy-back the convertible note at any time. If the Company repays the note prior to February 21, 2020, the repayment amount is reduced to $4,950,000, consisting of the Principal of $4,500,000 plus $450,000 of interest costs. The Company is required to repay the principal amount in 18 equal monthly installments commencing August 21, 2019, with the interest payment of $900,000 due upon maturity, subject to the reduction of interest described above.

The note is convertible, at a fixed conversion price of $0.40 per common share (the "conversion price"), at the option of the holder, into common shares of the Company at any time over the term of the note or if a change of control occurs. Should the Company elect to buy-back all or a portion of the convertible note, the investor has the right to convert to common shares 25% of the principal amount of the note that the Company is buying back, at the same fixed conversion price. In addition, the investor has the right, on each 90-day period to elect payment of quarterly accrued interest in the form of common shares at the then current share price. Any interest paid via common shares will reduce the cash interest payment obligation required at debenture maturity upon early repayment.

The investor also received 5,625,000 warrants as part of this convertible debenture, entitling the investor to purchase one common share at an exercise price of $0.5089 for a period of 36 months from the issue date. The warrants are subject to acceleration where 50% of the total warrants outstanding, or 2,812,500 warrants, may be accelerated at the option of the Company if the volume weighted average price ("VWAP") of the Company's common shares are at least $1.0178 for 30 consecutive trading days. The remaining warrants may be accelerated by the Company if the VWAP of the Company's common shares are at least $1.5267 for 30 consecutive trading days.

The Company allocated the gross proceeds from the issuance between the estimated fair value of the debt and equity components using the residual method. The Company used an effective annualized discount rate of 17.2%, which resulted in valuation of the debt component at $4,303,813 and the equity component at $196,187 before issue costs. The debt component is measured at amortized cost.

| Allocation of gross proceeds and balance of debt component: | | March 31, 2019 |
|---|---|---|
| Gross proceeds of issued debentures - maturing February 21, 2021 | $ | 4,500,000 |
| Less: allocation to equity for debt to share conversion option | | (196,187) |
| Less: allocation to equity for fair value of warrants | | (399,998) |
| Less: transaction costs | | (257,796) |
| Accretion expense | | 126,050 |
| Issue costs allocated to equity | | 35,987 |
| Total | $ | 3,808,056 |
| Less: current portion of debentures | | (2,000,000) |
| Long-term portion | **$** | **1,808,056** |

(Expressed in Canadian dollars)

## 11.RELATED PARTY BALANCES AND TRANSACTIONS

a) Goods and services

The Company had the following transactions with related parties during the years ended March 31, 2019 and 2018 which were recognized at the amounts that were agreed upon between the two parties:

| | Year ended March 31, 2019 | 2018 |
|---|---|---|
| Paid to the Chief Executive Officer for office space rental | $30,000 | $30,000 |
| Paid to a company controlled by its Chief Executive Officer for costs associated with packaging inventory | $172,695 | $92,266 |
| Paid to Paradigm Medical Services, a company controlled by a past director, for advisory services | $63,270 | $21,000 |

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.

| | Year ended March 31, 2019 | 2018 |
|---|---|---|
| Director compensation (non-Executive): | | |
| Salaries and consulting fees | $ 91,625 | $ 70,500 |
| Share-based compensation | 47,839 | 455,247 |
| | $139,464 | $525,747 |
| Management compensation: | | |
| Salaries and management fees | $277,875 | $ 94,000 |
| Share-based compensation | 260,148 | 192,409 |
| | $538,023 | $286,409 |
| | $677,487 | $812,156 |

c) Amounts due from key management and a current director of $72,335 included in accounts receivable at March 31, 2019 ($119,770 due from a former director and included in accounts receivable at March 31, 2018) (Note 5) are unsecured, non-interest bearing and will be repaid in full by March 31, 2020.

d) Amounts payable to related parties as at March 31, 2019 of $nil (March 31, 2018 - $23,314) are unsecured, non-interest bearing with no scheduled terms of repayment.

(Expressed in Canadian dollars)

## 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 year ended March 31, 2018:

1. The Company issued 3,342,580 common shares pursuant to the exercise of stock options for proceeds of $843,645.

2. The Company issued 3,707,000 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $1,246,472.

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 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 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 $20,448 in share issue costs associated with this financing.

## 12.SHARE CAPITAL (continued)

5. In January 2018, the Company completed a Regulation A public offering (the "Offering") raising $10,000,000 in gross proceeds. The Company closed its Offering of common shares, qualified by the U.S. Securities and Exchange Commission, with non-Canadian investors on January 22, 2018, consisting of 14,285,715 common shares at a purchase price of $0.70 per share.

   Boustead Securities LLC ("Boustead"), a FINRA registered broker dealer, was the lead underwriter outside Canada. The Company paid Boustead a commission of $800,000 representing 8% of the gross proceeds of the aggregate Offering amount and issued 857,143 agent's warrants representing 6% of the aggregate number of the securities sold in the Offering. Each agent warrant is exercisable into one common share of the Company at an exercise price of $1.05, expiring November 21, 2020. The warrants were valued at $789,767 ($0.92 per warrant) using the Black-Scholes option pricing model with the following assumptions: term of 2.8 years, historical volatility of 96.66%, risk-free rate of 1.76% and expected dividends of $nil.

   The Company incurred $645,688 in additional share issue costs associated with this financing, including an advisory fee paid to Boustead.

6. On the same terms as the Offering, the Company closed a concurrent Canadian private placement on January 24, 2018 of 5,788,078 common shares raising an aggregate total of $4,051,655. The Canadian offering was non-brokered and no commissions or fees were paid in connection with the shares issued. An additional 76,658 common shares, valued at $53,661, were issued in connection with the Canadian offering to compensate certain Canadian investors for foreign currency transaction costs incurred as a consequence of the Company collecting a portion of subscription receipts in U.S. dollar funds for a Canadian dollar-denominated share offering. The Company incurred $83,857 in share issue costs associated with this financing.

The Company had the following share capital transactions during the year ended March 31, 2019:

1. On October 17, 2018, the Company issued 100,000 common shares pursuant to an employment agreement. The shares were valued at $60,000 based on the market price at the share issue date, which is included in share-based compensation expense for the year ended March 31, 2019. The shares are to be held on a restricted basis for one year from the October 17, 2018 issue date.

2. The Company issued 1,128,317 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $406,254. Additional proceeds of $14,000 were recorded as shares subscribed at March 31, 2019 in respect of warrant exercise requests and funds received where the shares had not been issued from treasury as of March 31, 2019.

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

(Expressed in Canadian dollars)

## 12.SHARE CAPITAL (continued)

4. On March 27, 2019, the Company issued 500,000 common shares pursuant to employment and consulting contracts. The shares were valued at $275,000 based on the market price at the share issue date, which is included in share-based compensation expense for the year ended March 31, 2019. The shares are to be held on a restricted basis as follows:

   a. 400,000 for seven months from the March 27, 2019 issue date.
   b. 100,000 for twelve months from the March 27, 2019 issue date.

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 | $0.49 |
| Warrants exercised | (1,128,317) | 0.36 |
| Warrants issued | 5,625,000 | 0.51 |
| **Balance, March 31, 2019** | **10,794,063** | **$0.51** |

As at March 31, 2019, the following share purchase warrants are outstanding:

| Number of Warrants | Exercise Price ( $ ) | Expiry Date |
|---|---|---|
| 1,748,332 | 0.45 | May 29, 2019 |
| 420,922 | 0.36 | May 29, 2019 |
| 646,000 | 0.45 | June 12, 2019 |
| 1,496,666 | 0.36 | June 12, 2019 |
| 857,143 | 1.05 | November 21, 2020 |
| 5,625,000 | 0.51 | February 21, 2022 |
| 10,794,063 | | |

Subsequent to year end, 1,507,578 warrants were exercised, and 2,804,342 warrants expired leaving a total balance of 6,482,143 warrants remaining.

(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) | $0.19 |
| Stock options granted | 4,410,000 | 0.56 |
| Stock options forfeited | (1,635,000) | 0.67 |
| **Balance, March 31, 2019** | **7,825,000** | **$0.57** |

As at March 31, 2019, the following stock options are outstanding and exercisable:

| Number of Options | | Exercise Price | Expiry Date |
|---|---|---|---|
| Outstanding | Exercisable | ( $ ) | |
| 2,250,000 | 2,250,000 | 0.40 | May 29, 2019 |
| 100,000 | 100,000 | 0.94 | February 6, 2020 |
| 1,100,000 | 900,000 | 0.94 | February 6, 2023 |
| 900,000 | 450,000 | 0.50 | July 31, 2023 |
| 1,050,000 | - | 0.56 | September 10, 2023 |
| 1,675,000 | 375,000 | 0.56 | March 6, 2024 |
| 750,000 | - | 0.61 | March 21, 2024 |
| **7,825,000** | **4,075,000** | | |

(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

| | Year ended March 31, | |
|---|---|---|
| | **2019** | 2018 |
| Risk free annual interest rate | **1.90%** | 1.20% |
| Expected annual dividend rate | **0%** | 0% |
| Expected stock price volatility | **95%** | 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 year ended March 31, 2019 was $0.40 (year ended March 31, 2018 - $0.36) per option. As at March 31, 2019, stock options outstanding have a weighted average remaining contractual life of 1.9 years (March 31, 2018 – 2.3 years).

## 13.ADMINISTRATIVE AND OFFICE EXPENSE

| | Year ended March 31, | |
|---|---|---|
| | **2019** | 2018 |
| Accounting and legal | **$342,470** | $417,855 |
| Application cost | **29,035** | 15,000 |
| Director fees | **32,494** | 7,500 |
| Filing fees | **76,950** | 91,256 |
| Insurance | **231,212** | 100,106 |
| Office supplies | **255,495** | 187,753 |
| Property tax expense | **108,525** | - |
| Rent | **77,333** | 66,003 |
| Transfer agent | **44,020** | 30,467 |
| Travel and meals | **275,191** | 106,068 |
| Utilities | **34,906** | 18,875 |
| Wages | **1,724,525** | 841,612 |
| | **$3,232,156** | $1,882,495 |

(Expressed in Canadian dollars)

## 14. SELLING AND MARKETING EXPENSE

| | Year ended March 31, | |
|---|---|---|
| | **2019** | 2018 |
| Advertising | **$531,767** | $123,033 |
| Branding | **368,985** | 32,500 |
| Digital marketing | **25,738** | - |
| Investor relations | **303,396** | 189,806 |
| Public relations | **124,934** | 44,996 |
| Trade shows | **179,899** | 34,062 |
| Sales administration costs | **59,234** | 66,326 |
| Travel and meals | **180,011** | 132,951 |
| Wages | **390,093** | 136,443 |
| | **$2,164,057** | $760,117 |

## 15. 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, 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 and short term investments are measured based on level 1 inputs of the fair value hierarchy.

### 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 March 31, 2019:

## 15. FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)

Credit risk

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 March 31, 2019, 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.

Liquidity risk

Liquidity risk arises from our general and capital financing needs with respect to future growth. Liquidity risk could arise if the Company encounters difficulty in meeting future obligations with financial liabilities. As at March 31, 2019, the Company has cash and cash equivalents of $4,391,072 (March 31, 2018 - $10,812,815) to settle current liabilities of $3,659,829 (March 31, 2018 - $1,049,962). The Company also has short-term investments of $57,500 as well as $250,000 of cash which is set aside as restricted cash (Note 10). 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.

| **Commitments:** | < one-year | 1 - 3 Year | 3 - 5 Year |
|---|---|---|---|
| Accounts Payable | $1,635,337 | - | - |
| Convertible Note | 2,000,000 | 3,400,000 | - |
| Operating leases | 52,680 | 52,680 | 52,680 |
| Purchase Commitments | 294,464 | 121,964 | 54,464 |
| | **3,982,481** | **3,574,644** | **107,144** |

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.

## 15.FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)

Currency risk (continued)

The Company has determined that, with other variables unchanged, the effect of a 10% increase in the Canadian dollar as at March 31, 2019:

- 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 a decrease of approximately $23,000 to the net loss and comprehensive loss for the year ended March 31, 2019 (2018 – increase of approximately $705,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

At March 31, 2019, 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 has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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, cash, the convertible note payable, 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 year ended March 31, 2019.

## 16.COMMITMENTS

The Company had the following commitments as of March 31, 2019:

1. 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.

2. 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.

3. Effective February 28, 2019, the Company entered into an agreement for capital market advisory services which commits the Company to three instalment payments of $33,750 at each of August 28, 2019, February 28, 2020 and August 28, 2020. In addition, the Company must pay a closing fee of 3% of the transaction value of any mergers and acquisition completed during the term of the agreement.

(Expressed in Canadian dollars)

## 17. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | Year ended March 31, 2019 | Year ended March 31, 2018 |
|---|---|---|
| Loss for the year | $ (5,509,148) | $ (3,967,936) |
| Expected income tax recovery | $ (1,487,000) | $ (1,042,000) |
| Change in statutory tax rates and other | 79,000 | (8,000) |
| Permanent differences | 278,000 | 478,000 |
| Share issue costs | - | (430,000) |
| Change in unrecognized deductible temporary differences | 1,130,000 | 1,002,000 |
| Total income tax expense (recovery) | $ - | $ - |

The significant components of the Company's deferred tax assets and deferred tax liabilities are as follows:

| | March 31, 2019 | March 31, 2018 |
|---|---|---|
| Deferred tax assets: | | |
| Share issue and finance costs | $ 187,000 | $ - |
| Deferred tax liabilities: | | |
| Convertible note payable | (187,000) | - |
| Net deferred tax assets | $ - | $ - |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

| | 2019 | Expiry Date Range | 2018 | Expiry Date Range |
|---|---|---|---|---|
| Temporary differences: | | | | |
| Share issue costs | $ 462,000 | 2040 to 2043 | $ 1,293,000 | 2039 to 2042 |
| Capital assets | $ 82,000 | No expiry date | $ 17,500 | No expiry date |
| Intangible assets | $ 63,000 | No expiry date | $ 17,500 | No expiry date |
| Non-capital losses available for future periods | | | | |
| Canada | $ 9,219,000 | 2034 to 2038 | $ 5,177,000 | 2034 to 2038 |
| Luxembourg | $ 814,000 | 2034 to 2036 | 329,000 | 2034 to 2035 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

(Expressed in Canadian dollars)

## 18.SEGMENTED INFORMATION

Operating segmented information

As at March 31, 2019, the Company had two reportable segments, being the sale of hemp-based nutrition for pets ("Pet"), the planned sale of cannabis under the Cannabis Act, ("Cannabis") as well as the parent, True Leaf Brands Inc. ("Corporate"). 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 segmented information is presented as follows:

| As at March 31, 2019 | Pet | Cannabis | Corporate | Total |
|---|---|---|---|---|
| Current assets | $ 856,128 | $ 441,127 | $ 4,532,871 | $5,830,126 |
| Non-current assets | 258,867 | 11,007,922 | 250,000 | 11,516,789 |
| Liabilities | (294,082) | (790,595) | (4,383,208) | (5,467,885) |
| Net assets | $ 820,913 | $10,658,454 | $ 399,663 | $11,879,030 |

| Year ended March 31, 2019 | | | | |
|---|---|---|---|---|
| | Pet | Cannabis | Corporate | Total |
| Revenues | $ 2,311,036 | $ - | $ - | $ 2,311,036 |
| Gross profit | 1,058,771 | - | - | 1,058,771 |
| Operating expenses | (2,790,649) | (531,875) | (3,502,754) | (6,825,278) |
| Loss from operations | $(1,731,878) | $(531,875) | $(3,502,754) | $(5,766,507) |

| As at March 31, 2018 | Pet | Cannabis | 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 |
| Liabilities | (227,118) | (488,808) | (334,036) | (1,049,962) |
| Net assets | $1,056,036 | $3,876,108 | $10,318,625 | $15,250,769 |

| Year ended March 31, 2018 | | | | |
|---|---|---|---|---|
| Revenues | $1,400,511 | - | - | $1,400,511 |
| Gross profit | 621,329 | - | - | 621,329 |
| Operating expenses | (1,504,877) | (206,664) | (3,098,314) | (4,809,855) |
| Loss from operations | $(883,548) | $(206,664) | $(3,098,314) | $(4,188,526) |

(Expressed in Canadian dollars)

## 18. 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 March 31, 2019 | North America | Europe | Total |
|---|---|---|---|
| Current assets | $ 5,663,668 | $166,458 | $5,830,126 |
| Non-current assets | 11,474,822 | 41,967 | 11,516,789 |
| Liabilities | (5,398,959) | (68,926) | (5,467,885) |
| Total net assets | $11,739,531 | $139,499 | $11,879,030 |

| Year ended March 31, 2019 | | | |
|---|---|---|---|
| Revenues | $1,898,485 | $412,551 | $2,311,036 |
| Gross profit | 897,280 | 161,491 | 1,058,771 |
| Operating expenses | 6,155,412 | 669,866 | 6,825,278 |
| Loss from operations | $(5,258,132) | $(508,375) | $(5,766,507) |

| 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 |

| Year ended March 31, 2018 | | | |
|---|---|---|---|
| Revenues | $1,234,191 | $166,320 | $1,400,411 |
| Gross profit | 570,120 | 51,208 | 621,329 |
| Operating expenses | 4,527,505 | 282,350 | 4,809,856 |
| Loss from operations | $(3,957,385) | $(231,141) | $(4,188,526) |

## 19. SUBSEQUENT EVENTS

The following events occurred subsequent to March 31, 2019:

a) The Company signed 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 subsequent to March 31, 2019:
   - Terminated prior to May 3, 2021 – obligation ranging from $195,000 to $250,000 plus accrued bonus or
   - Terminated after May 3, 2021- obligation ranging from $292,500 to $375,000 plus accrued bonus.

   Upon commencement of employment, the agreement obligates the Company to grant the executive 250,000 shares in the Company, to be held on a restricted basis, with 125,000 restricted for a period of one year and the balance restricted for two years from the issue date (now issued). The agreement also obligates the Company to grant the executive 750,000 stock options which vest evenly over three years, with 1/3 of the options vesting each year on the anniversary of the grant date.

b) The Company issued 1,085,000 stock options with an exercise price of $0.29 per share and an expiry date of July 25, 2024 to consultants and employees of the Company.

c) The Company issued 1,507,578 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $672,044.

d) The Company issued 700,000 common shares pursuant to the exercise of stock options for gross proceeds of $276,500.