TRUE LEAF BRANDS INC.
(The "Company", "True Leaf", "we", "us", "our")

On July 29, 2019

MANAGEMENT DISCUSSION & ANALYSIS

This Management's Discussion & Analysis (this "MD&A") has been prepared by management and should be read in conjunction with the annual consolidated financial statements of the Company together with the related notes thereto for the year ended March 31, 2019. The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* as issued by the *International Accounting Standards Board* ("IASB") ("IFRS") and interpretations of the *International Financial Reporting Interpretations Committee* ("IFRIC"). All amounts are stated in Canadian dollars unless otherwise indicated.

FORWARD LOOKING STATEMENTS

This MD&A contains certain statements related to industry scope and state, production, revenue, expenses, plans, development schedules and similar items that represent forward-looking statements. Such statements are based on assumptions and estimates related to future economic and market conditions. Such statements include declarations regarding management's intent, belief or current expectations. Certain statements contained herein may contain words such as "could", "should", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts but are forward-looking statements. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties; actual results may differ materially from those indicated by such forward-looking statements. Some of the important factors, but certainly not all, that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is of a preliminary nature and may be subject to further adjustment, (ii) the possible unavailability of financing, (iii) start-up risks, (iv) general operating risks, (v) dependence on third parties, (vi) changes in government regulation, (vii) the effects of competition, (viii) dependence on senior management, (ix) impact of economic conditions, and (x) fluctuations in currency exchange rates and interest rates.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the annual consolidated financial statements of the Company together with the related notes thereto for the year ended March 31, 2019 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.

OVERVIEW

CORPORATE BACKGROUND

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".

OUR BUSINESS

True Leaf is a leading global cannabis and hemp wellness brand for pets. Founded in 2013, True Leaf has two main operating divisions: True Leaf Pet Inc. and True Leaf Cannabis Inc. The Company's goal is to be a global cannabis-for-pets brand leader by embracing natural alternatives to help pets live healthier, happier and longer lives. Management believes that both the cannabis and pet industries represent high-growth industries.

TL Pet launched its hemp-seed based pet supplement and treat product line in the fall of 2015. The Company shares the commitment of its customers to improve the overall health of their pets with natural ingredients. The Company believes that consumers are looking for higher quality products that address nutritional needs common to their pets, without having to worry about food safety or harmful side effects. Products containing hemp, including hemp seed oil, hemp protein and hemp extracts are gaining significant acceptance as evidence of their nutritional effectiveness becomes recognized. The Company's products are developed and marketed for the purpose of improving the health, comfort, enjoyment and safety of our customers' pets. The current hemp-seed based formula is legally compliant and meets US and Canadian guidelines allowing TL Pet to establish a distribution network that includes more than 3,500 stores globally, with retail partners like PetSmart Canada, Pets Supplies Plus, Pets Corner UK and Amazon. The Company can and will use other channels to sell its products including veterinarians, food wholesalers, drug stores, club

OUR BUSINESS (continued)

stores, mass merchandisers, discount stores and natural foods stores. The Company currently sells its hemp pet products in Canada, the United States and Europe.

TL Pet's formulations were created with veterinarian support and include other plant-based natural ingredients. All products sold are federally legal in the US, Canada and Europe and are part of a broader strategy to position the Company as the global brand leader in the cannabis-for-pets space.

TL Cannabis was launched in July 2013 to become a licensed producer of medicinal cannabis for the Canadian market under Canada's *Access to Cannabis for Medical Purposes Regulations* ("ACMPR") program administered by Health Canada. In October of 2018, the ACMPR process changed as a result of new regulations that amended the Controlled Drugs and Substances Act, the Criminal Code and other Acts (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 application to become a licensed producer and grower of cannabis under the ACMPR was moved to the Cannabis Tracking and Licensing System ("CTLS") under the Cannabis Act. The Company continues to work diligently to comply with all of the requirements of Health Canada in order to be successful at receiving a license to sell cannabis under the Cannabis Act.

STRATEGIC OUTLOOK

The Company's business objectives for the next 12 months are:

1. Continue to build worldwide market share, distribution networks, secure new customers, and launch new products in the natural pet space, growing the Company's line of innovative supplements and natural remedy products for pets. Sales will be through traditional distribution channels, direct-to-store and direct-to-consumer sales channels.

2. Successfully complete additional capital financings in order to fund the objectives of the Company's business plan.

3. Launch new and innovative cannabis products for pets including hemp-based pet products in markets and jurisdictions where regulations allow.

4. Receive License Producer ("LP") status in Canada, to grow and sell cannabis under the Cannabis Act.

5. Review potential joint ventures or strategic acquisition targets in the pet, health & wellness and cannabis space.

STRATEGIC OUTLOOK (continued)

The Company's long-term business objectives are:

1. For TL Pet:

    a) Continue to build and scale a global cannabis-for-pets brand, with the mission to improve the quality of life for companion animals;

    b) Increase sales, distribution and store count within the pet specialty, mass-pet, veterinary and food/drug/mass market segments in addition to building a dedicated consumer base online;

    c) Continue to grow and scale the global supply chain from the initial procurement of raw materials to the ultimate distribution to the end consumer/customer.

    d) Launch additional product lines and secure additional distribution partners in the European markets;

    e) Seek out key distribution partners for alternative market regions like Asia, South America and other potential new markets;

    f) Continue to perform R&D work and launch new hemp-based ("CBD") pet formulations for the North American and European markets;

    g) Seek out potential long-term strategic partners to support the business.

2. For TL Cannabis:

    a) With the Lumby facility now complete, seek final approvals to become a Licenced Producer of cannabis and be approved as a grower and seller of cannabis under the Cannabis Act in Canada;

    b) Assess the sale/lease of space within the Lumby facility, as well as offering value-added services, potentially supporting the micro-cultivator cannabis community;

    c) Assess the opportunity to assign capital towards research and development in order to build a base of intellectual property from proprietary formulations, cultivars, with a focus on unique pet product formulations and supplements;

    d) Assess and explore opportunities to develop a base of wholesale supply contracts for the recreational or medicinal markets.

(Expressed in Canadian dollars)

SELECTED ANNUAL RESULTS OF OPERATIONS

The following table presents selected financial information for the most recent three annual periods:

	Year ended		
Description	**March 31, 2019** $	**March 31, 2018** $	**March 31, 2017** $
Revenues	2,311,036	1,400,511	368,536
Loss and comprehensive loss for period	(5,509,148)	(3,967,936)	(1,743,050)
Loss per share - basic	$(0.06)	$(0.05)	$(0.03)
Total assets	17,346,915	16,300,731	771,623
Total non-current liabilities	1,808,056	-	63,169

All of the Company's revenues from inception to date are from the sale of its hemp-based products for pets, mostly in North America and Europe. Revenue growth was primarily fueled by True Leaf expanding the commercial reach of its True Leaf Pet division into new geographies both in-store and online. True Hemp™ dog chews, dental sticks and supplement oils are now sold in more than 3,500 stores worldwide and online on Amazon.

Revenue is recorded net of customer discounts, promotional allowances, allowance for customer returns, and includes freight collected in connection with online sales. The Company's cost of sales includes inventory, product-related costs and costs to ship products to customers. Cost of sales may include different costs compared to other manufacturing and distribution companies.

The Company has a group of distributors that provide access to thousands of third-party pet specialty stores. The Company continues to experience net losses as a result of its investment in selling and marketing costs to expand its store count presence and product line with these pet specialty stores in the areas served. The asset base has grown as a result of the construction of the True Leaf Campus cannabis building in Lumby. Non-current liabilities have increased as a result of the new convertible note payable issued in February 2019.

(Expressed in Canadian dollars)

QUARTERLY RESULTS OF OPERATIONS

The following table presents selected financial information for the most recent eight quarters:

	Three months ended							
Description	**March 31, 2019**	**Dec 31, 2018**	**Sept 30, 2018**	**June 30, 2018**	**Mar 31, 2018***	**Dec 31, 2017***	**Sept 30, 2017 ***	**June 30, 2017***
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenues	595,261	652,370	572,071	491,334	386,733	265,555	458,729	289,494
Total operating expenditures	(2,406,733)	(1,629,025)	(1,569,262)	(1,220,258)	(2,201,461)	(649,073)	(650,722)	(1,308,599)
Loss and comprehensive loss for period	(1,968,923)	(1,312,089)	(1,330,927)	(897,209)	(1,839,674)	(541,041)	(416,330)	(1,170,891)
Basic and diluted Loss per share	(0.03)	(0.01)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)

* Certain comparative figures for the quarters in the year ended March 31, 2018 were reclassified in the consolidated financial statements for the year ended March 31, 2018 and the quarterly figures above reflect those reclassifications.

RESULTS OF OPERATIONS

Twelve-months ended March 31, 2019 and twelve-months ended March 31, 2018

The Company's revenue for the twelve-months ended March 31, 2019 came from TL Pet, and was $2,311,036 – the Company's highest annual revenue to date and an increase of 65% from the prior year's revenue of $1,400,511. The growth in store count has driven the increase in revenues year over year in North America. The increase in investment in sales and marketing talent, and other key infrastructure has resulted in growing operating expenditures and higher losses each quarter.

The Company's European operations contributed $412,551 of the total revenue for this annual period versus $166,320 the prior year, an increase of 148%. The growth in Europe is also driven by increased store penetration in current markets as well a geographic expansion and store growth in new countries within Europe.

Hiring experienced sales personnel to provide aggressive sales and marketing supported the growth in revenue for the North American and European markets. Revenues have been increasing steadily since TL Pet began operations in early 2016 with a small sales team. The Company will continue to expand the sales and marketing team to ensure continued revenue growth driven by new stores carrying the TL Pet products, higher volume of product sales at current stores, and new product offerings.

RESULTS OF OPERATIONS (continued)

The Company incurred a net loss of $5,509,148 for the twelve-month period ended March 31, 2019 (2018 - $3,967,936). Revenue from the Company's pet business continues to grow, although not yet sufficient to fully fund the Company's operating expenditures. Operating expenditures consist primarily of: selling and marketing, administrative and office, research and development and share-based compensation expenses.

Total operating expenditures of $6,825,278 for the twelve-months ended March 31, 2019 were higher than the same period in the prior year, driven by higher selling and marketing, and office and administration, offset by lower share-based compensation. For the twelve-months ended March 31, 2019, selling and marketing expenses were $2,164,057 (2018 - $760,117), administrative expenses were $3,232,156 (2018 - $1,882,495), and share-based compensation was $998,387 (2018 - $1,836,441). The total operating expenses of $6,825,278 were split amongst each business unit with True Leaf brands contributing $3,449,732, TL Cannabis contributing $531,875 and TL Pet (including Europe) contributing $2,790,649 overall.

Operating expenditures increased in both the three-month period ending March 31, 2019 and the three-month period ending March 31, 2018. The larger than normal increase in the three-month period ending March 31, 2019 was due to higher compensation expense from share option grants to executives and consultants. The larger than normal increase in the three-month period ending March 31, 2018 was a result of legal and transaction costs for the Regulation A+ listing that closed in January of 2018.

Selling and marketing expenses include salaries, commissions, travel costs and promotional activities in connection with the sale of pet products and raising awareness of the True Leaf brand to consumers and investors.

The increase in selling and marketing expenses of $1,403,940 for the year ended March 31, 2019 compared to the year ended 2018 is consistent with the Company's objective of growing revenue for its pet treat and supplements and increasing the brand awareness of the True Leaf name as a global leader in the cannabis for pets market. The increase in selling costs is primarily due to salaries and travel costs of a larger, dedicated sales team working to win new customers as well as attend trade shows in North America and Europe to build awareness for the Company's products. The benefit of this investment is reflected in the Company's revenue growth and increase in store count from approximately 1,800 at March 31, 2018 to approximately 3,500 at March 31, 2019. A portion of the increase in marketing expenses for the period relates to fees paid to a branding and market positioning expert to enhance the Company's global cannabis for pets brand.

Administrative and office expenses of $3,232,156 for the year ended March 31, 2019 increased $1,349,661 (2018 - $1,882,495), mainly due to higher wages related to the hiring of additional employees and contractors, insurance costs and property taxes as a result of the ownership of the Lumby land and cannabis grow facility.

RESULTS OF OPERATIONS (continued)

Salaries, payroll expenses, recruitment and consultant fees accounted for $1,724,525 of total administrative and office expense (2018 - $841,612). The increase is attributable to an increase in the number of employees and consultants at March 31, 2019 compared to March 31, 2018, as well as costs incurred to retain a top external executive search firm. These costs are consistent with the Company's focused effort to assemble a world-class leadership team who will deliver on the Company's growth plans, execute on the design and build of the cultivation and production facility and lead the development of its pet and cannabis products.

Share-based compensation expense was lower at $998,387 for the period ended March 31, 2019 (2018 - $1,836,441) because fewer options were granted during the current period compared to the comparable twelve month period ending March 31, 2018, as well as a large portion of the options granted in the comparable twelve month period vested immediately. The Company's revised approach to granting stock options includes a longer vesting period, which better aligns those receiving options with contributing to the long-term growth and success of the Company. The Company recognizes the expense, based on the fair value of the options, using the Black-Scholes option pricing model.

Research and development expense include costs associated with the Company's Medical Advisory Board ("MAB") and the research of new products targeted for pets and people. TL Cannabis formed the MAB in March of 2018 consisting of independent medical experts and Dr. Chris Spooner, a naturopath. During the year, the Company eliminated the MAB and Dr. Spooner resigned from the Board, as a result of the Company's heavier focus on pets and pet products.

The Company entered into an agreement with veterinarian Dr. Katherine Kramer during the year, to chair the Company's newly established Veterinary Advisory Board ("VAB") which will provide strategic direction to TL Pet and assist the Company with the development of hemp and hemp-based 'CBD' products for its line of pet products. Dr. Kramer is a vocal advocate for the research and therapeutic use of cannabis for animals, is the Medical Director at the VCA-Canada Vancouver Animal Wellness Hospital and has been practicing veterinary medicine for 16 years.

Subsequent to year end, the Company appointed another veterinarian leader, Dr. Conny Mosley, to the VAB. Dr. Mosley is a Director and Vice-President of the Canadian Association of Veterinary Cannabinoid Medicine (CAVCM) and brings more than 20 years of experience in veterinary medicine to True Leaf. She currently leads the integrative pain management service at the VCA Canada 404 Veterinary Emergency and Referral Hospital in Newmarket, Ontario, which improves the quality of life for pets through perioperative, postoperative, acute and chronic pain management. Like Dr. Kramer, Dr. Mosley is a strong advocate for cannabis-based therapies for animals, and through her work at CAVCM, and with the Canadian Veterinary Medical Association (CVMA), is encouraging Health Canada to amend the Access to Cannabis for Medical Purposes Regulations (ACMPR) to permit the future classification of CBD as a Veterinary Health Product.

(Expressed in Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at March 31, 2019, the Company had an ending cash position of $4,698,572, of which $250,000 is classified as a non-current other asset, as the cash is held within a restricted investment in connection with the convertible note, and $57,500 are short-term investments. Working capital (current assets less current liabilities) for the year ended March 31, 2019 was $2,170,297 versus the year ended March 31, 2018 of $10,868,317. The Company has used capital to complete the build out of its True Leaf Campus cannabis facility in Lumby, BC as well as fund on-going business growth.

Receivables of $632,223 (March 31, 2018 - $385,671) include trade receivables of $217,462 (March 31, 2018 - $202,683). As at March 31, 2019, the top three distributors amounted to 34% of total trade receivables (March 31, 2018 – top three distributors amounted to 29%), and all of the trade receivables were in good standing. Receivables also include a $304,929 GST receivable.

Inventory balances were as follows:

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

The growth in sales during the year reduced product inventory to $173,410 at March 31, 2019 from $432,729 at March 31, 2018. The Company's co-packing arrangements enable it to quickly scale production to respond to increased customer demand.

As at March 31, 2019, prepaid expenses and deposits increased from $149,199 at March 31, 2018 to $417,243 which includes deposits of $135,803 (March 31, 2018 - $34,903) and prepaid insurance premiums of $156,636. The construction deposits of $128,077 are refundable upon completion of the construction project, subject to approval by the Village of Lumby that the Company has complied with conditions set out in its various permits.

Investing activities

The Company's property, plant and equipment consist of the substantially completed building in Lumby, office furniture and equipment, leasehold improvements and tradeshow assets and had a net book value of $7,730,894 at March 31, 2019 (March 31, 2018 - $132,420).

During the year ended March 31, 2019, the Company completed construction of its two-story 18,000 square foot building in Lumby, BC, known as the True Leaf Campus. Construction costs of $6,779,214 (year ended March 31, 2018 - $726,955) were capitalized. The completed building will be the facility that has the initial cannabis grow area, laboratory services and whole-plant extraction services that will support the Company's application to Health Canada for its licensed

LIQUIDITY AND CAPITAL RESOURCES (continued)

producer ("LP") status. Depreciation will commence when the facility is available for its intended use.

Investing activities (continued)

Total property, plant and equipment additions for the year ended March 31, 2019 totaled $6,925,382 (year ended March 31, 2018 - $865,429).

The Company's intangible assets consist of its websites, trademarks and related costs, and intellectual property which had a net book value of $155,508 at March 31, 2019 ($142,690 at March 31, 2018). Intangible asset additions for the year ended March 31, 2019 totaled $83,108 (March 31, 2018 - $37,124) for the protection of trademarks used in the TL Pet business and development of an e-commerce site for the European operation.

Financing activities

The Company's operations during the year ended March 31, 2019 were funded by the revenue generating activities of True Leaf Pet, issuance of share capital on exercise of stock options and warrants providing proceeds of $564,826, the continued use of $18,464,265 generated through the issuance of share capital during the year ended March 31, 2018, and the net proceeds after issuance costs of $4,242,204 of a convertible note issued on February 21, 2019.

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. The maturity date of the note 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. Net cash proceeds, after issuance costs (but excluding legal fees), was $4,242,204.

The majority of capital raised in the year ended March 31, 2018 was through two public financings. The completion of a Regulation A+ crowdfunding campaign approved by the United States Securities and Exchange Commission (the "SEC") raised $10,000,000 in gross proceeds, consisting of 14,285,715 common shares of the Company at a purchase price of $0.70 per share (the "Offering"). True Leaf was the first Canadian-listed company to conduct a successful Regulation A+ Offering. The use of Regulation A+ allowed the Company to offer and sell its common shares to public retail investors as well as traditional accredited and institutional investors. In addition, on the same terms as the Offering, the Company closed a concurrent Canadian private placement of 5,788,078 common shares raising an aggregate total of $4,051,655.

(Expressed in Canadian dollars)

LIQUIDITY AND CAPITAL RESOURCES (continued)

Going Concern

The consolidated financial statements were prepared on a going concern basis, which assumes that the Company is able to realize its assets and discharge liabilities in the normal course of business.

For the year ended March 31, 2019, the Company incurred a loss of $5,509,148 and had an accumulated 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 operations have not yet achieved profitability. On February 21, 2019, the Company closed a financing which raised gross proceeds of $4,500,000. After fees and other expenses, the financing provided net proceeds of $4,242,204, 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. Management believes this financing will provide adequate liquidity to support the Company's continued operations for the ensuing twelve months. 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 resources 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 is a material uncertainty that raises substantial doubt about the Company's ability to continue as a going concern.

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

RELATED PARTY TRANSACTIONS

a) Goods and Related party transactions for the years ended March 31, 2019 and 2018 at the amounts agreed upon between the 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

(Expressed in Canadian dollars)

RELATED PARTY TRANSACTIONS (continued)

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 & 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) 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.

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares without par value and an unlimited number of preferred non-voting shares without par value. As of July 29, 2019 the total number of issued and outstanding common shares was 99,862,099 and there were no preferred shares outstanding.

During the twelve-month period ended March 31, 2019 and through to July 29, 2019, the Company issued the following securities:

- 850,000 common shares pursuant to an employment agreement;
- 1,257,145 common shares pursuant to the exercise of share options; and
- 2,635,895 common shares pursuant to the exercise of share purchase warrants

(Expressed in Canadian dollars)

SHARE CAPITAL (continued)

Stock Options

As at July 29, 2019, the following stock options are outstanding and exercisable:

Number of Options		Exercise Price	Expiry Date
Outstanding	Exercisable	($)	
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
1,085,000	-	0.29	July 25, 2024
6,660,000	**1,825,000**		

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	(1,257,145)	0.25
Stock options expired	(1,850,000)	0.40
Stock options granted	5,495,000	0.56
Stock options cancelled/forfeited	(1,635,000)	0.67
Balance, July 29, 2019	**6,660,000**	**$0.64**

(Expressed in Canadian dollars)

SHARE CAPITAL (continued)

Warrants

As at July 29 2019, the following share purchase warrants are outstanding and exercisable:

a) 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	(2,635,895)	0.36
Warrants issued	5,625,000	0.51
Warrants expired	(2,804,342)	0.45
Balance, July 29, 2019	**6,482,143**	**$0.51**

As at July 29, 2019, the following share purchase warrants are outstanding:

Number of Warrants	Exercise Price ($)	Expiry Date
857,143	1.05	November 21, 2020
5,625,000	0.51	February 21, 2022
6,482,143		

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:

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,

FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)

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.

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.

FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)

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.

CHANGES IN ACCOUNTING POLICIES

(a) 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.

CHANGES IN ACCOUNTING POLICIES (continued)

(b) 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.

- 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.

CHANGES IN ACCOUNTING POLICIES (continued)

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 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 and upon review of the implications of the adoption of IFRS 15 against its customer contracts, concluded the timing and amount of revenue recognized by the Company did not change from the adoption of IFRS 15.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

PROPOSED TRANSACTIONS

The Company does not have any proposed transactions.

SUBSEQUENT EVENTS

Subsequent to the year ended 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.

APPROVAL

The Company's Board of Directors has approved the disclosures in this MD&A as of July 29, 2019.

ADDITIONAL INFORMATION

Additional information concerning the Company and its operations is available on SEDAR at www.sedar.com.