TRUE LEAF BRANDS INC.

(The "Company", "True Leaf", "we", "us", "our")

On August 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 unaudited condensed interim consolidated financial statements of the Company together with the related notes thereto for the three months ended June 30, 2019, as well as the audited 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 condensed interim consolidated financial statements of the Company together with the related notes thereto for the three months ended June 30, 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.

BUSINESS 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, 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 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.

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)

SUMMARY OF QUARTERLY RESULTS

The following tables present selected financial information for the most recent eight quarters:

Description	Three Months Ended			
	June 30, 2019 $	Mar 31, 2019 $	Dec 31, 2018 $	Sept 30, 2018 $
Revenues	414,657	595,261	652,370	572,071
Total operating expenditures	(2,214,825)	(2,406,733)	(1,629,025)	(1,569,262)
Loss and comprehensive loss for period	(1,997,651)	(1,968,923)	(1,312,089)	(1,330,927)
Basic and diluted Loss per share	(0.02)	(0.03)	(0.01)	(0.01)

Description	Three Months Ended			
	June 30, 2018 $	Mar 31, 2018* $	Dec 31, 2017* $	Sept 30, 2017 * $
Revenues	491,334	386,733	265,555	458,729
Total operating expenditures	(1,220,258)	(2,201,461)	(649,073)	(650,722)
Loss and comprehensive loss for period	(897,209)	(1,839,674)	(541,041)	(416,330)
Basic and diluted Loss per share	(0.01)	(0.02)	(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.

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.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2019 and 2018

The Company's revenue for the three months ended June 30, 2019 came from TL Pet, and was $414,657, a decrease from revenue of $491,334 during the three months ended June 30, 2018. The Company has been working with a branding and marketing firm to re-brand its current hemp seed product line. The transition from the current True-hemp branded dog supplement line, to the new True Leaf branded line, had a near-term impact on revenues, with revenues down 16% from the same period last year. Customers were waiting for the new re-branded product launch which has impacted sales of the current True Hemp product line, which is being phased out.

In addition to this, the Company continues to increase investment in sales and marketing talent, and other key infrastructure, which resulted in growing operating expenditures and higher losses compared to the same three month period in the prior year. Hiring experienced sales personnel to provide aggressive sales and marketing supported the growth in revenue for the North American and European markets since TL Pet began operations in early 2016. The Company will continue to expand the sales and marketing team to ensure the re-branded hemp seed product line and the soon to be launched True Leaf CBD product line will be aggressively marketed to our customers.

The Company incurred a net loss of $1,997,651 for three months ended June 30, 2019 (2018 - $897,209). Revenue's from the Company's pet business are not yet large enough at this point 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 $2,214,825 for the three months ended June 30, 2019 were higher than the same period in the prior year, driven by higher selling and marketing, administrative and office, and share-based compensation. For the three months ended June 30, 2019, selling and marketing expenses were $485,153 (2018 - $343,495), administrative expenses were $1,198,602 (2018 - $747,030), and share-based compensation was $235,281 (2018 - $50,541). The Company also had non-cash accretion expense of $276,471 related to the convertible note for the three month period ending June 30, 2019, compared to nil, for the same three month period in the prior year. The total operating expenses of $2,214,825 were split amongst each business unit with True Leaf Brands contributing $1,165,275 TL Cannabis contributing $151,734, TL Investments contributing $194 and TL Pet (including Europe) contributing $897,622 overall.

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 $141,658 for the three months ended June 30, 2019 compared to the same period in 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 June 30, 2019.

Administrative and office expenses of $1,198,602 for the three months ended June 30, 2019 increased $451,572 compared to the same period in 2018, 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.

Salaries, payroll expenses, and consultant fees accounted for $688,654 of total administrative and office expense (2018 - $402,855). The increase is attributable to an increase in the number of employees and consultants at June 30, 2019 as compared to June 30, 2018. 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 increased $184,740 for the period ended June 30, 2019 compared to the same period in 2018 because of share-based compensation being offered as part of hiring incentives for additional talent. 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.

The Company entered into an agreement with veterinarian Dr. Katherine Kramer during the year ended March 31, 2019, 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.

During the three months ended June 30, 2019, 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 June 30, 2019, the Company had an ending cash position of $2,909,537, 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 $103,500 are short-term investments. Working capital (current assets less current liabilities) for the three months ended June 30, 2019 was $1,367,067 versus the year ended March 31, 2019 of $2,170,297. The Company has used capital to fund on-going business growth.

Receivables of $638,250 (March 31, 2019 - $632,223) include trade receivables of $209,234 (March 31, 2019 - $217,462). As at June 30, 2019, the top three distributors amounted to 55% of total trade receivables (March 31, 2019 – top three distributors amounted to 34%). The receivables balance also include a $273,606 GST receivable.

Inventory balances were as follows:

	June 30, 2019	March 31, 2019
	$	$
Finished goods	383,212	173,410
Supplies	6,995	158,678
Total inventory	$390,207	332,088

The production of the rebranded products during the three-month period increased fished goods inventory to $383,212 at June 30, 2019 from $173,410 at March 31, 2019. The Company is growing co-packing relationships to enable it to quickly scale production to respond to customer demand.

As at June 30, 2019, prepaid expenses and deposits decreased from $417,243 at March 31, 2019 to $402,300 which includes deposits of $135,803 (March 31, 2019 - $135,803) and prepaid insurance premiums of $103,380 (March 31, 2019 − $156,636). The construction deposits of $128,077 (March 31, 2019 − $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.

(Expressed in Canadian dollars)

Cash Flows

For the three months ended	June 30, 2019 $	June 30, 2018 $
Cash flow from operating activities	(1,799,482)	(1,169,794)
Cash flow from investing activities	(844,948)	(2,142,431)
Cash flow from financing activities	797,690	
Change in cash	$(1,846,740)	(3,312,225)

Operating activities

Cash used by operations for the three months ended June 30, 2019 was $1,799,482 (2018 − $1,169,794). Cash flow from operations remained negative as the Company has not yet been able to achieve profitability and continued to incur operating losses during the period.

Investing activities

The Company's property, plant and equipment consist of the completed building in Lumby, office furniture and equipment, leasehold improvements and tradeshow assets and had a net book value of $7,835,243 at June 30, 2019 (March 31, 2019 - $7,730,894).

The completed building will be the facility that has the initial cannabis grow area that will support the Company's application to Health Canada for its licensed producer ("LP") status. Depreciation will commence when the facility is available for its intended use.

Total property, plant and equipment additions for the three months ended June 30, 2019 were $109,314 (2018 - $2,426,126).

The Company's intangible assets consist of its websites, trademarks and related costs, and intellectual property which had a net book value of $166,180 at June 30, 2019 ($155,508 at March 31, 2019). Intangible asset additions for the three months ended June 30, 2019 totaled $15,206 (2018 - $83,108) for the protection of trademarks used in the TL Pet business and for the redesign of the TL websites.

Financing activities

The Company's operations during the three months ended June 30, 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 $797,690 during the three month period 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.

Going Concern

The condensed interim 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 period ended June 30, 2019, the Company incurred a comprehensive loss of $1,997,651 and, as of that date had a deficit of $16,479,040. The Company earned revenues of $414,657 (2018 - $491,334) 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.

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

(Expressed in Canadian dollars)

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 since the year ended March 31, 2019.

RELATED PARTY TRANSACTIONS

a) Goods and Related party transactions for the three months ended June 30, 2019 and 2018 at the amounts agreed upon between the parties:

	Three Months Ended June 30,	
	2019	2018
	$	$
Paid to the Chief Executive Officer for office space rental	$7,500	$7,500
Paid to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	$28,958	$36,656

(Expressed in Canadian dollars)

b) Compensation of key management personnel

The Company considers its key management personnel to be its Directors, Chief Executive Officer, Chief Financial Officer and other senior executives including the President of True Leaf Pet and SVP of Operations of True Leaf Pet.

	Three Months Ended June 30,	
	2019	2018
Director compensation (non-Executive):		
Salaries and consulting fees	$ 28,250	$ 48,780
Share-based compensation	13,661	37,906
	$ 41,911	$ 86,686
Management compensation:		
Salaries and management fees	$ 153,699	$ 54,635
Share-based compensation	99,936	12,635
	$ 253,635	$ 67,270
	$ 295,546	$153,956

c) Amounts due from key management and a current director of $68,947 included in accounts receivable at June 30, 2019 ($72,335 due from key management and a current director included in accounts receivable at March 31, 2019) are unsecured, non-interest bearing and will be repaid in full by March 31, 2020.

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 August 29, 2019 the total number of issued and outstanding common shares was 100,412,099 and there were no preferred shares outstanding.

During the three months ended June 30, 2019 and through to August 29, 2019, the Company issued the following securities:

- 250,000 common shares pursuant to an employment agreement;
- 700,000 common shares pursuant to the exercise of share options; and
- 1,507,578 common shares pursuant to the exercise of share purchase warrants.

(Expressed in Canadian dollars)

Stock Options

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

Number of Options Outstanding	Exercisable	Exercise Price ($)	Expiry Date
100,000	100,000	0.94	February 6, 2020
1,100,000	1,000,000	0.94	February 6, 2023
800,000	566,666	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	50,000	0.29	July 25, 2024
6,560,000	**2,091,666**		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
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**
Stock options exercised	(700,000)	$0.40
Stock options granted	1,085,000	0.29
Stock options forfeited	(1,650,000)	0.40
Balance, August 29, 2019	**6,560,000**	**$0.58**

(Expressed in Canadian dollars)

Warrants

As at August 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, 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
Warrants expired	(2,804,342)	0.43
Warrants exercised	(1,507,578)	0.37
Warrants issued	-	-
Balance, August 29, 2019	**6,482,143**	**$0.58**

As at August 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		

CRITICAL ACCOUNTING ESTIMATES

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.

(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.

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.

(Expressed in Canadian dollars)

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 June 30, 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 June 30, 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 June 30, 2019, the Company has cash and cash equivalents of $2,556,037 (March 31, 2019 - $4,391,072) to settle current liabilities of $2,723,227 (March 31, 2019 - $3,659,829). The Company also has short-term investments of $103,500 as well as $250,000 of cash which is set aside as restricted cash. 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	723,127	-	-
Convertible Note	2,000,000	3,400,000	-
Leases	64,680	129,360	129,360
Purchase Commitments	181,964	172,678	138,928
	2,969,771	**3,702,038**	**268,288**

Currency risk

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

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

The Company has determined that, with other variables unchanged, the effect of a 10% increase in the Canadian dollar as at June 30, 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 $76,000 to the net loss and comprehensive loss for the three months ended June 30, 2019 (2018 – increase of approximately $446,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

At June 30, 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 June 30, 2019, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

CHANGES IN ACCOUNTING POLICIES

Adoption of New IFRS Pronouncements

The Company adopted the new IFRS pronouncements listed below as at April 1, 2019, in accordance with the transitional provisions outlined in the respective standards described below.

IFRS16 – Leases

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.

Effective April 1, 2019, the Company has adopted IFRS 16. On transition, the Company has elected to apply the recognition exemptions on short-term leases and low-value leases. The adoption of IFRS 16 did not have a material impact on the Company's consolidated financial statements.

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 three months ended June 30, 2019:

a) 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.

b) The Company issued 250,000 common shares pursuant to an employment agreement with a senior executive.

APPROVAL

The Company's Board of Directors has approved the disclosures in this MD&A as of August 28, 2019.

ADDITIONAL INFORMATION

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