True Leaf Brands Inc.
Condensed Interim Consolidated Financial Statements
For the Six Months ended September 30, 2019 and 2018

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

TRUE LEAF BRANDS INC.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	Notes	September 30, 2019	March 31, 2019
Assets			
Current			
Cash and cash equivalents		$918,923	$4,391,072
Short-term investments		103,500	57,500
Trade and other receivables	5	697,144	632,223
Inventories	6	855,122	332,088
Prepaid expenses and deposits	7	290,092	417,243
		2,864,781	5,830,126
Land	8	3,380,387	3,380,387
Property, plant and equipment	8	7,904,287	7,730,894
Intangible assets	9	169,279	155,508
Other assets	10	250,000	250,000
Total assets		$14,568,734	$17,346,915
Liabilities			
Current			
Accounts payable and accrued liabilities		$894,039	$1,635,337
Construction holdback payable	8	-	24,492
Current portion convertible note payable	10	3,500,000	2,000,000
Total current liabilities		4,394,039	3,659,829
Convertible note payable	10	879,550	1,808,056
Total liabilities		5,273,589	5,467,885
Shareholders' equity			
Share capital	12	23,701,463	22,689,173
Reserves		3,919,955	3,660,877
Accumulated other comprehensive income		41,874	-
Deficit		(18,368,147)	(14,471,020)
Total shareholders' equity		9,295,145	11,879,030
Total liabilities and shareholders' equity		$14,568,734	$17,346,915

Nature of operations and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 18)

Approved on behalf of the Board of Directors on November 26, 2019

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

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

TRUE LEAF BRANDS INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Notes	For the Three Months Ended September 30, 2019	For the Three Months Ended September 30, 2018	For the Six Months Ended September 30, 2019	For the Six Months Ended September 30, 2018
Sales		$ 706,752	$ 572,071	$ 1,121,409	$ 1,063,405
Cost of sales		(343,557)	(325,956)	(558,446)	(576,236)
Gross profit		363,195	246,115	562,963	487,169
Operating Expenditures					
Accretion expense	10	295,023	-	571,494	-
Administrative and office	13	1,071,742	723,677	2,270,344	1,470,707
Amortization and depreciation	8,9	38,941	58,079	48,193	115,779
Research and development		29,263	18,073	39,329	39,565
Selling and marketing	14	568,759	498,325	1,053,912	841,820
Share-based compensation	12	238,397	271,108	473,678	321,649
Total operating expenditures		(2,242,125)	(1,569,262)	(4,456,950)	(2,789,520)
Loss from operations		(1,878,930)	(1,323,147)	(3,893,987)	(2,302,351)
Other income		23,825	2,072	47,425	26,231
Foreign exchange gain (loss)		(34,002)	(9,852)	(50,565)	80,134
Net loss		$ (1,889,107)	$(1,330,927)	$(3,897,127)	$(2,195,986)
Other comprehensive income (loss)		31,505	-	41,874	-
Total comprehensive loss		(1,857,602)	$(1,330,927)	$(3,855,253)	$(2,195,986)
Loss per common share – basic		$(0.02)	$(0.01)	$(0.04)	$(0.02)
Weighted average number of common shares outstanding – basic		100,162,099	95,369,059	99,940,934	95,369,059

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

TRUE LEAF BRANDS INC.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited)

(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Reserves	Accumulated other comprehensive income	Deficit	Total Shareholders' Equity
Balance, March 31, 2018	**95,369,059**	**$ 21,693,918**	**$ 2,518,723**	**-**	**$ (8,961,872)**	**$ 15,250,769**
Share-based compensation	-	-	321,649	-	-	321,649
Fair value adjustment on forfeiture of stock options	-	-	(22,049)	-	22,049	-
Loss for the period	-	-	-	-	(2,195,986)	(2,195,986)
Balance, September 30, 2018	**95,369,059**	**$ 21,693,918**	**$ 2,818,323**	**-**	**$ (11,135,809)**	**$ 13,376,432**
Balance, March 31, 2019	**97,954,521**	**$22,689,173**	**$3,660,877**	**-**	**$(14,471,020)**	**$11,879,030**
Shares issued on exercise of stock options	700,000	418,600	(142,100)	-	-	276,500
Shares issued on exercise of warrants	1,507,578	521,190	-	-	-	521,190
Shares issued to executive	250,000	72,500	-	-	-	72,500
Share-based compensation		-	401,178	-	-	401,178
Foreign operations currency translation differences	-	-	-	41,874	-	41,874
Loss for the period	-	-	-	-	(3,897,127)	(3,897,127)
Balance, September 30, 2019	**100,412,099**	**$23,701,463**	**$3,919,955**	**$41,874**	**$(18,368,147)**	**$9,295,145**

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

TRUE LEAF BRANDS INC.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

	Six Months ended September 30,	
	2019	2018
Operating activities		
Loss for the period	$ (3,897,127)	$ (2,195,986)
Items not affecting cash:		
Accretion expense	571,494	-
Amortization and depreciation	48,193	115,779
Share-based compensation	473,678	321,649
Inventory write-down	-	9,789
Changes in non-cash working capital items:		
Prepaid expenses and deposits	161,442	(145,457)
Accounts payable and accrued liabilities	(374,787)	(102,634)
Due to related parties	-	(6,783)
Inventories	(212,160)	154,176
Trade and other receivables	(68,114)	(49,920)
Net cash used in operating activities	$ (3,297,381)	$ (1,899,387)
Investing activities		
Additions to property, plant and equipment	(941,018)	(3,374,608)
Intangible asset costs	(30,332)	(52,775)
Increase in short-term investments	(46,000)	-
Net cash used in investing activities	$(1,017,350)	$(3,427,383)
Financing activities		
Proceeds from exercise of options	276,500	-
Proceeds from exercise of warrants	521,190	-
Net cash provided by financing activities	$797,690	-
Change in cash and cash equivalents for the period	(3,517,041)	(5,326,770)
Effect of foreign exchange	44,892	-
Cash and cash equivalents, beginning of the period	4,391,072	10,812,815
Cash and cash equivalents, end of the period	$ 918,923	$ 5,486,045

The accompanying notes are an integral part of these condensed interim 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 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, was 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 migrated its application to the Cannabis Tracking and Licensing System (“CTLS”) under the Cannabis Act. The Company was working to satisfy all key items in order to qualify for the license, including the completion of a compliant facility on a parcel of land owned by the Company in Lumby, British Columbia (Note 8). Subsequent to September 30, 2019, the Company announced it received approval and secured three licenses from Health Canada to cultivate, process and sell medical cannabis (Note 18 - Subsequent Events).

Going Concern

These 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.

1. NATURE OF OPERATIONS AND GOING CONCERN (CONTINUED)

For the period ended September 30, 2019, the Company incurred a comprehensive loss of $3,855,253 and, as of that date had a deficit of $18,368,147. The Company earned revenues of $1,121,409 (2018 - $1,063,405) 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 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 condensed interim consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") ("IFRS") as applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. These condensed interim consolidated financial statements were approved by the Company's Board of Directors on November 26, 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. CHANGES IN ACCOUNTING POLICIES

Adoption of New IFRS Pronouncements

IFRS 16 − 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.

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.

(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:

(Expressed in Canadian dollars)

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

(a) Estimates (continued)

- 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.

5. RECEIVABLES

		September 30, 2019		March 31, 2019
Trade receivables (a)	$	365,295	$	217,462
Miscellaneous receivables (b)		129,343		109,832
Goods and services tax receivable		202,506		304,929
	$	**697,144**	**$**	**632,223**

(Expressed in Canadian dollars)

5. RECEIVABLES (CONTINUED)

(a) Trade receivables

Trade receivables are non-interest bearing and are due within 30 days. As at September 30, 2019, the Company had $21,135 trade receivables that were over 90 days (March 31, 2019 - Nil).

During the six months ended September 30, 2019, revenues from three distributors amounted to 48% of total sales (March 31, 2019: 40%). As at September 30, 2019, these top three distributors amounted to 32% of total trade receivables (March 31, 2019: 34%).

(b) Miscellaneous receivables

At September 30, 2019, certain management and a director were indebted to the Company $66,100 (March 31, 2019: $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 March 31, 2020. Miscellaneous receivables also included an amount of $75,000 (March 31, 2019: $37,497) in connection with rent receivable.

6. INVENTORY

	September 30, 2019	March 31, 2019
Finished goods	$352,556	$173,410
Supplies	502,566	158,678
	$855,122	**$332,088**

The cost of inventories recognized as an expense in the six months ended September 30, 2019 was $360,004 and is included in cost of sales (2018: $417,477).

(Expressed in Canadian dollars)

7. PREPAID EXPENSES AND DEPOSITS

	September 30, 2019	March 31, 2019
Insurance premiums	$42,988	$156,636
Property Tax	28,259	-
Other	76,422	124,804
Prepaid expenses	147,669	281,440
Construction deposits	134,021	128,077
Security deposits	8,402	7,726
	142,423	135,803
	$290,092	**$417,243**

As at September 30, 2019, prepaid expenses include a deposit of $134,021 (March 31, 2019 - $128,077) paid in connection with construction of the Company's cannabis production facility in Lumby (Note 8). 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:	**Buildings**	**Tradeshow Assets**	**Leasehold Improvement**	**Office furniture**	**Equipment**	**Total**
Balance, March 31, 2018	$ 726,955	$ -	$ 79,929	$ 20,165	$ 49,716	$ 876,765
Additions	6,779,214	86,765	-	-	59,403	6,925,382
Balance, March 31, 2019	7,506,169	86,765	79,929	20,165	109,119	7,802,147
Additions	88,338	14,246	6,860	-	96,175	205,619
Balance September 30, 201?	$ 7,594,507	$ 101,011	$ 86,789	$ 20,165	$ 205,294	$ 8,007,766
Accumulated depreciation:						
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
Depreciation for the period	-	10,016	3,995	2,016	16,199	32,226
Balance September 30, 2019	$ -	$ 10,016	$ 45,068	$ 12,232	$ 36,163	$ 103,479
Carrying value:						
As at March 31,2019	$ 7,506,169	$ 86,765	$ 38,856	$ 9,949	$ 89,155	$ 7,730,894
As at September 30, 2019	**$ 7,594,507**	**$ 90,995**	**$ 41,721**	**$ 7,933**	**$ 169,131**	**$ 7,904,287**

(Expressed in Canadian dollars)

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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.

Construction of the Company's building was completed in March 2019, with total construction costs 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.

9. INTANGIBLE ASSETS

Cost:	**Website**	**Trademarks and related costs**	**Intellectual property**	**Total**
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	266,809
Additions	7,012	22,725	-	29,737
Balance, September 30, 2019	$17,813	$223,233	$55,500	$296,546
Accumulated amortization:				
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
Amortization for the period	-	9,930	6,036	15,966
Effect of foreign exchange	-	-	-	-
Balance, September 30, 2019	$10,801	$74,355	$42,111	$127,267
Carrying value:				
As at March 31, 2019	-	$136,083	$19,425	$155,508
As at September 30, 2019	**$7,012**	**$148,878**	**$13,389**	**$169,279**

(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, and classified as other asset pursuant to the terms of the Convertible Security Funding Agreement ("CSFA"). 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:		September 30, 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 of debenture discount		697,544
Issue costs allocated to equity		35,987
Total	$	4,379,550
Less: current portion of debentures		(3,500,000)
Long-term portion	**$**	**879,550**

(Expressed in Canadian dollars)

10. CONVERTIBLE NOTES (CONTINUED)

During the six months ended September 30, 2019, the Company recorded accretion expense of $571,494 (2018: $nil) relating to this convertible debt.

Subsequent to September 30, 2019 the Company completed a waiver, amendment and funding agreement supplement (the "Waiver") for the CSFA noted above. Pursuant to the terms of the CSFA, the Company was required to repay the principal amount in 18 equal monthly installments ($250,000) commencing August 21, 2019. The Waiver, which was executed on October 7, 2019 provides for (i) a 6 month deferral of these $250,000 payments to the Investor to March 22, 2020; (ii) the issuance of an additional convertible security with a face value of $540,000 (the "Deferral Convertible Security") to the Investor; and (iii) the issuance of 2,160,000 warrants ("New Warrants") of the Company to the Investor.

The Deferral Convertible Security is convertible into common shares of the Company at a conversion price of $0.21 per share. The Deferral Convertible Security is required to be repaid in 18 equal monthly installments ($30,000) beginning on March 22, 2020, except that the repayment amount will be reduced in any month by any amount converted by the Investor into the Company's common shares. The New Warrants entitle the Investor to purchase one common share for each warrant, at an exercise price of $0.21, for a period of 36 months from the date of issue.

As at September 30, 2019, the current portion of the original convertible note was $3,500,000. After giving effect to the transactions within the Waiver, the current portion of the convertible note obligations (both original and new convertible securities) would be reduced from $3,500,000 to $1,960,000 ($1,750,000 on the original convertible note and $210,000 on the new convertible note).

11. RELATED PARTY BALANCES AND TRANSACTIONS

a) Goods and services

The Company had the following transactions with related parties during the six months ended September 30, 2019 and 2018 which were recognized at the amounts that were agreed upon between the two parties:

	Six Months Ended September 30,	
	2019	2018
Paid to the Chief Executive Officer for office space rental	$37,135	$30,000
Paid to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	$54,300	$55,020

(Expressed in Canadian dollars)

11. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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.

	Six Months Ended September 30,	
	2019	2018
Director compensation (non-Executive):		
Salaries and consulting fees	$ 52,875	$ 37,125
Share-based compensation	17,501	54,738
	$ 70,376	$91,953
Management compensation:		
Salaries and management fees	$ 342,090	$ 92,125
Share-based compensation	191,653	35,631
	$ 533,743	$127,756
	$ 604,119	$219,619

c) Amounts due from key management and a current director of $66,100 are included in accounts receivable at September 30, 2019 (March 31, 2019: $72,335) and are unsecured, non-interest bearing and will be repaid in full by March 31, 2020.

(Expressed in Canadian dollars)

12. SHARE CAPITAL

a) Authorized

Unlimited Common voting shares with no par value

b) Issued

The Company did not have any share capital transactions during the six-month period ended September 30, 2018.

The Company had the following share capital transactions during the six-month period ended September 30, 2019:

a. The Company issued 1,507,578 common shares pursuant to the exercise of share purchase warrants for gross proceeds of $521,190.

b. The Company issued 700,000 common shares pursuant to the exercise of share options for proceeds of $276,500.

c. The Company issued 250,000 common shares to an executive as part of their employment contract and recorded $72,500 as a share-based compensation expense, with the same amount as an addition to share capital.

c) 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, September 30, 2019	**6,482,143**	**$0.58**

(Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

c) Share purchase warrants (continued)

As at September 30, 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		

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, 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 granted	1,085,000	$0.29
Stock options exercised	(700,000)	0.40
Stock options expired	(1,550,000)	0.40
Stock options forfeited	(275,000)	0.56
Balance, September 30, 2019	**6,385,000**	**$0.58**

(Expressed in Canadian dollars)

12. SHARE CAPITAL (CONTINUED)

d) Stock options (continued)

As at September 30, 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
1,075,000	1,000,000	0.94	February 6, 2023
725,000	491,666	0.50	July 31, 2023
1,050,000	350,000	0.56	September 10, 2023
1,600,000	300,000	0.56	March 6, 2024
750,000	-	0.61	March 21, 2024
1,085,000	50,000	0.29	July 25, 2024
6,385,000	**2,291,666**		

During the six months ended September 30, 2019, the Company recorded share-based compensation of $401,178 (2018: $321,649) relating to the stock options.

13. ADMINISTRATIVE AND OFFICE EXPENSE

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Accounting and legal	$ 90,490	$ 60,953	$ 151,002	$ 153,628
Application cost	1,765	15,900	3,419	31,800
Director fees	24,559	5,250	39,994	7,125
Filing fees	16,634	22,460	24,614	22,700
Insurance	60,577	45,103	121,861	88,405
Office supplies	85,245	44,249	204,382	127,699
Property tax expense	28,259	14,548	56,518	52,206
Rent	34,177	14,200	63,419	27,100
Transfer agent	1,113	17,240	8,990	29,368
Travel and meals	69,083	72,241	240,868	106,705
Utilities	6,709	5,524	13,806	10,822
Wages and salaries	653,131	406,009	1,341,471	813,149
	$ 1,071,742	$ 723,677	**$2,270,344**	$1,470,707

(Expressed in Canadian dollars)

14. SELLING AND MARKETING EXPENSE

	Three months ended September 30,		Six months ended September 30,	
	2019	2018	2019	2018
Advertising	$ 118,036	$ 92,082	$ 217,886	$ 170,800
Branding	78,528	60,230	146,238	105,230
Digital marketing	3,049	7,254	8,181	11,254
Investor relations	68,725	78,204	201,519	148,659
Public relations	88,527	53,171	88,527	70,530
Trade shows	65,455	31,960	99,806	42,439
Sales administration costs	5,390	3,410	18,148	5,865
Travel and meals	30,148	86,965	64,656	128,480
Wages	110,901	85,049	208,951	158,563
	$ 568,759	$ 498,325	**$1,053,912**	$ 841,820

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 and accounts payable and accrued liabilities 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 September 30, 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 September 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 September 30, 2019, the Company has cash and cash equivalents of $918,923 (March 31, 2019 - $4,391,072) to settle current liabilities of $4,394,039 (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 (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 as at September 30, 2019:

	< one-year	1 - 3 Year	3 - 5 Year
Accounts Payable	894,039	-	-
Convertible Note	3,500,000	1,900,000	-
Leases	64,680	129,360	129,360
Purchase Commitments	88,214	138,928	138,928
	4,546,933	**2,168,288**	**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.

15. FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (CONTINUED)

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 September 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 $84,000 to the net loss and comprehensive loss for the six months ended September 30, 2019 (2018 – increase of approximately $238,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

At September 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.

<u>Interest rate risk</u>

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

<u>Capital Management</u>

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 three months ended September 30, 2019.

16. COMMITMENTS

The Company had the following commitments as of September 30, 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. 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 April 29, 2020 - $195,000 plus accrued bonus; or
   b. Terminated after April 29, 2020 - $292,500 plus accrued bonus.

4. 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 May 24, 2020 - $195,000 plus accrued bonus; or
   b. Terminated after May 24, 2020 - $292,500 plus accrued bonus.

(Expressed in Canadian dollars)

17. SEGMENTED INFORMATION

Operating segmented information

As at September 30, 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 September 30, 2019	Pet	Cannabis	Corporate	Total
Current assets	$1,652,319	$422,180	$790,282	$2,864,781
Non-current assets	265,595	11,181,345	257,013	11,703,953
Liabilities	(540,277)	(34,671)	(4,698,641)	(5,273,589)
Net assets	$1,377,637	$11,568,854	$(3,651,346)	$9,295,145

For the six-months ended September 30, 2019				
Revenues	$1,121,409	$ -	$ -	$1,121,409
Gross profit	562,963	-	-	562,963
Operating expenses	(1,828,701)	(251,356)	(2,376,893)	(4,456,950)
Loss from operations	$(1,265,738)	$(251,356)	$(2,376,893)	$(3,893,987)

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

For the three-months ended September 30, 2019	Pet	Cannabis	Corporate	Total
Revenues	$ 706,752	$ -	$ -	$ 706,752
Gross profit	363,195	-	-	363,195
Operating expenses	(931,081)	(99,622)	(1,211,422)	(2,242,125)
Loss from operations	$(567,886)	$(99,622)	$(1,211,422)	$(1,878,930)

(Expressed in Canadian dollars)

17. 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 September 30, 2019	North America	Europe	Total
Current assets	$2,671,590	$193,191	$2,864,781
Non-current assets	11,671,052	32,901	11,703,953
Liabilities	(5,146,062)	(127,527)	(5,273,589)
Total net assets	$9,196,580	$98,565	$9,295,145

For the six-months ended September 30, 2019			
Revenues	$901,211	$220,198	$1,121,409
Gross profit	428,522	134,441	562,963
Operating expenses	(4,055,330)	(401,620)	(4,456,950)
Loss from operations	$(3,626,808)	$(267,179)	$(3,893,987)

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

For the three-months ended September 30, 2018			
Revenues	$562,975	$143,777	$706,752
Gross profit	273,546	89,649	363,195
Operating expenses	(2,022,885)	(219,240)	(2,242,125)
Loss from operations	$(1,749,339)	$(129,591)	$(1,878,930)

18. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2019:

1) The Company completed a waiver, amendment and funding agreement supplement (the "Waiver") for the Convertible Security Funding Agreement ("CSFA") that was issued on February 21, 2019. Pursuant to the terms of the CSFA, the Company was required to repay the principal amount in 18 equal monthly installments ($250,000) commencing August 21, 2019. The Waiver, which was executed on October 7, 2019 provides for (i) a 6 month deferral of these $250,000 payments to the

18. SUBSEQUENT EVENTS (CONTINUED)

Investor to March 22, 2020; (ii) the issuance of an additional convertible security with a face value of $540,000 (the "Deferral Convertible Security") to the Investor; and (iii) the issuance of 2,160,000 warrants ("New Warrants") of the Company to the Investor.

The Deferral Convertible Security is convertible into common shares of the Company at a conversion price of $0.21 per share. The Deferral Convertible Security is required to be repaid in 18 equal monthly installments ($30,000) beginning on March 22, 2020, except that the repayment amount will be reduced in any month by any amount converted by the Investor into the Company's common shares. The New Warrants entitle the Investor to purchase one common share for each warrant, at an exercise price of $0.21, for a period of 36 months from the date of issue.

2) The Company officially began to sell its previously announced launch of its CBD chews for the U.S. pet health market in October. True Leaf's new CBD-enhanced functional chews use non-GMO, pesticide-free, broad-spectrum hemp leaf with naturally occurring CBD, in addition to the unique combination of plant-based active ingredients in the brand's original hemp seed-based pet supplement line. True Leaf's debut CBD products in the U.S. will display the National Animal Supplement Council (NASC) Quality Seal – one of the highest-level certifications in the pet industry.

3) On November 25, 2019, the Company announced that True Leaf Cannabis, a subsidiary of True Leaf Brands, secured licenses from Health Canada to cultivate, process and sell cannabis for medical purposes pursuant to the Cannabis Act for its 18,000 square foot True Leaf Campus facility in Lumby, British Columbia. The license allows True Leaf to begin cultivating, processing and selling medical cannabis from its facility immediately and to produce alternative cannabis products such as edibles, topicals, and capsules.