TRUE LEAF BRANDS INC.

(The “Company”, “True Leaf”, “we”, “us”, “our”)

On February 26, 2020

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 nine months ended December 31, 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 nine months ended December 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.

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").

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

The Company was founded in 2013 and has two divisions: True Leaf Pet Inc and True Leaf Cannabis Inc. The overall vison of the Company is to provide hemp, cannabis, and 'plant-focused' wellness products that help pets and people live longer, healthier, and happier lives. True Leaf Pet develops, markets, and sells natural supplements and treats primarily to the specialty pet channel across North America and Europe. True Leaf Cannabis is a Licensed Producer preparing to cultivate, process, and sell medicinal cannabis under Canada's *Cannabis Act* and owns a 18,000 square foot facility on 40 acres in Lumby, British Columbia, Canada. Management believes that both the pet care and medicinal cannabis industries represent high-growth industries.

True Leaf Pet launched its hemp seed-based pet supplement and treat product line in the fall of 2015. The Company believes that consumers are looking for higher quality products that help alleviate common health issues in their pets like anxiety and joint pain with more natural, quality ingredients. Products containing hemp, including hemp seed oil, hemp protein and hemp extracts, are gaining significant acceptance as evidence of their nutritional effectiveness becomes recognized around the world. True Leaf Pet's formulations were created with veterinarian support and include other plant-based natural ingredients that boost the overall effectiveness of the formulations. The Company's products are developed to adhere with local market regulations, allowing True Leaf Pet to establish a distribution network that includes stores globally, with retail partners like PetSmart Canada, Pets Supplies Plus, and Pets Corner UK. The Company will seek other channels to sell its products including veterinarians, food wholesalers, drug stores, club stores, mass merchandisers, and natural foods stores.

On November 22, 2019, the Company, through True Leaf Cannabis, became a Licensed Producer of medicinal cannabis for the Canadian market under the new Cannabis Act and secured three licenses from Health Canada to cultivate, process, and sell medical cannabis.

SUMMARY OF SIGNIFICANT EVENTS – FISCAL 2020

May 2019

- Received nearly $1 million (CAD) in proceeds through a successful warrant exercise.
- Announced the appointment of Kevin Cole as President of True Leaf Pet, bringing to the Company 20 years of experience in consumer-packaged goods including his work for Mars Petcare.
- Appointed integrative veterinarian Dr. Conny Mosley to True Leaf Pet's Veterinary Advisory Board.
- Announced a corporate name change to True Leaf Brands Inc.
- Signed its first cannabidiol (CBD) supply agreement with Atalo Holdings, Inc. for the supply of farm-fresh, hemp-derived CBD oil to support its debut line of CBD products for pets.

June 2019

- Expanded its European market presence by signing distribution agreements with OSCAR Pet Foods in the UK and Pocurull in Spain and Portugal.
- Signed a non-binding Memorandum of Understanding with pet care distributor Eagle Vet, launching True Leaf's expansion into the Asian market.
- Appointed Allen Fujimoto as Senior Vice-President, Operations of True Leaf Pet, bringing to the Company 25 years of experience in operations including his work at Petco.
- Signed a supply and purchase agreement with online cannabis marketplace Namaste Technologies to expand its e-commerce distribution network.

July 2019

- Announced its Fiscal Year 2019 financial results reporting record revenues of $2.3 million (CAD) – a 65% increase over the previous fiscal year.

August 2019

- Submitted its site evidence package to Health Canada for True Leaf Campus – the Company's cannabis cultivation and production facility in Lumby, British Columbia.
- Launched its veterinarian-formulated, CBD supplements for dogs at SuperZoo 2019, North America's premier pet industry trade show, in Las Vegas, Nevada.
- Reported strong revenues for the first quarter of Fiscal Year 2020.

September 2019

- Appointed Mike Mardy, CPA, to its Board of Directors, who most recently served as Executive Vice President, Chief Financial Officer, and Director of Tumi Holdings, Inc., a retailer of luxury luggage and travel accessories.

October 2019

- Closed a repayment deferral transaction with an entity managed by The Lind Partners, a New York-based institutional fund manager.

November 2019

- Secured three licenses from Health Canada to cultivate, process and sell cannabis for medical purposes pursuant to the Cannabis Act for its True Leaf Campus facility.
- Attended a pet industry trade event in South Korea to assist with market development in that region.

December 2019

- Reported record Q2 2020 revenues from global sales of True Leaf Pet products totaling $706,752 (CAD) – a 70% increase over the first quarter of fiscal 2020 and a 24% increase year over year.
- Appointed Darren Battersby, CPA, as Chief Financial Officer.

February 2020

- Showcased its expanded range of pet care products with a broader 'plant-based' focus at Global Pet Expo in Orlando, Florida.

STRATEGIC OUTLOOK

Pet Strategy

Since 2015 the Company has developed and launched more than 40 products for pets sold across North America and Europe. The True Leaf Pet division continues to secure broader distribution with key pet retailers as its popular lines of hemp, CBD, and oregano-focused pet products gain market share.

The Company recently secured several new product listings with PetSmart Canada to expand the Company's product line into 140 stores and online. The expanded range of hemp supplements and oil of oregano pet care products will arrive on store shelves in March 2020. In addition, the Company also secured distribution with Quebec-based pet retailer Mondou to list the Company's full product lines in their 66 stores across the province.

True Leaf Pet signed an agreement with Jerry Wilson & Associates to act as manufacturer representatives for thirteen states in the western region of the U.S. pet specialty market, including the lucrative California market. The firm has an affiliate relationship with George Brent & Associates, offering additional support for the Canadian marketplace.

Cannabis Strategy

Last year the Company completed its 18,000 square foot True Leaf Campus facility in Lumby, British Columbia, and became a Licensed Producer when it secured three licenses from Health Canada to cultivate, process, and sell cannabis for medical purposes on November 22, 2019.

The Company plans to leverage its formulation experience to offer cannabis oils and capsules with specific CBD, THC, terpene profiles that offer anxiety and anti-inflammatory support for people. Development of these cannabis products is underway with the support of white-label suppliers, providing the Company an efficient route to market with minimal capital requirements.

The Company has been actively seeking capital or a joint venture partner to invest and participate under their cannabis licenses. In addition, the Company is considering a potential sale or lease of its True Leaf Campus facility in order to monetize their investment in the licenses.

SUMMARY OF QUARTERLY RESULTS

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

Description	Three Months Ended			
	31-Dec-19	30-Sep-19	30-Jun-19	31-Mar-19
	$	$	$	$
Revenues	491,040	706,752	414,657	595,261
Total operating expenditures	(2,175,877)	(2,242,125)	(2,214,825)	(2,406,733)
Loss and comprehensive loss for period	(2,010,308)	(1,889,107)	(1,997,651)	(1,968,923)
Basic and diluted loss per share	(0.02)	(0.02)	(0.02)	(0.03)

Description	Three Months Ended			
	31-Dec-18	30-Sep-18	30-Jun-18	Mar 31, 2018*
	$	$	$	$
Revenues	652,370	572,071	491,334	386,733
Total operating expenditures	(1,629,025)	(1,569,262)	(1,220,258)	(2,201,461)
Loss and comprehensive loss for period	(1,312,089)	(1,330,927)	(897,209)	(1,839,674)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.02)

* 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 Leaf brand dog chews, dental sticks and supplement oils are now sold worldwide and online with Amazon.

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

Nine Months Ended December 31, 2019 and 2018

The Company's revenue for the nine months ended December 31, 2019 came from TL Pet, and was $1,612,449 a decrease of $103,326 from revenue of $1,715,775 during the nine months ended December 31, 2018. The Company worked with a branding and marketing firm to re-brand its hemp seed product line. The transition from the True-hemp branded dog supplement line to the new True Leaf brand, had a negative impact in the first part of fiscal 2020.

In addition to this, the Company continues to support and invest in sales and marketing talent, and other key infrastructure, which resulted in growing operating expenditures and higher losses compared to the same nine 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 has initiated steps to lower its monthly overhead expenditures, but will continue to focus on sales and marketing efforts 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 $5,907,435 for nine months ended December 31, 2019 (2018 - $3,508,075). Revenues 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, share-based compensation and accretion expenses.

Total operating expenditures of $6,632,827 for the nine months ended December 31, 2019 were higher than the same period in the prior year, driven by higher selling and marketing, administrative and office, share-based compensation and the addition of accretion expense from the new convertible note. For the nine months ended December 31, 2019, selling and marketing expenses were $1,420,224 (2018 - $1,350,480), administrative expenses were $3,431,132 (2018 - $2,378,413).

The Company also had non-cash operating expenses including share-based compensation at $768,473 for the nine months ended December 31, 2019 (2018 - $455,477) and accretion expense of $836,467 related to the convertible note for the nine months ended December 31, 2019, compared to nil, for the same nine month period in the prior year.

The total operating expenses of $6,632,827 were split amongst each business unit with True Leaf Brands contributing $3,651,355, TL Cannabis contributing $394,241, and TL Pet (including Europe) contributing $2,587,231 overall.

Selling and marketing expenses include salaries, commissions, travel costs, investor relations and other 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 $69,744 for the nine months ended December 31, 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 branding, advertising and salaries 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 December 31, 2019.

Administrative and office expenses of $3,431,132 for the nine months ended December 31, 2019 increased $1,052,717 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. During the third quarter, the Company initiated some cost cutting measure which will take affect in quarter 4 and for fiscal 2020

Salaries, payroll expenses, and consultant fees accounted for $1,889,891 of total administrative and office expense (2018 - $1,222,600). The increase is attributable to an increase in the number of employees and consultants at December 31, 2019 as compared to December 31, 2018. These costs are consistent with the Company's focused effort to assemble a world-class leadership team to execute the company's strategy.

Share-based compensation expense, a non-cash item, increased $312,996 for the nine months ended December 31, 2019 compared to the same period in 2018 because of share-based compensation being offered as part of hiring incentives for executive 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.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at December 31, 2019, the Company had an ending cash position of $410,574, 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) as at December 31, 2019 was negative $2,019,093 versus the year ended March 31, 2019 balance of $2,170,297. The Company has used capital to fund on-going business growth.

Receivables of $593,141 (March 31, 2019 - $632,223) include trade receivables of $142,939 (March 31, 2019 - $217,462). As at December 31, 2019, the top three distributors amounted to 29% of total trade receivables (March 31, 2019 – top three distributors amounted to 34%). The receivables balance also include a $194,142 GST receivable.

Inventory balances were as follows:

	December 31, 2019	March 31, 2019
	$	$
Finished goods	797,860	173,410
Supplies	195,670	158,678
Total inventory	**993,530**	**332,088**

The production of the True Leaf rebranded products increased finished goods inventory to $797,860 at December 31, 2019 from $173,410 at March 31, 2019. The supplies inventory increased to $195,670 at December 31, 2019 in preparation for the manufacture of the new CBD pet supplement product line in early October 2019. The Company is growing co-packing relationships to enable it to quickly scale production to respond to customer demand.

As at December 31, 2019, prepaid expenses and deposits decreased from $417,243 at March 31, 2019 to $191,804 which includes deposits of $134,021 (March 31, 2019 - $135,803) and prepaid insurance premiums of $13,671 (March 31, 2019 − $156,636). The construction deposits of $134,021 (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.

Cash Flows

For the nine months ended	December 31, 2019	December 31, 2018
	$	$
Cash flow from operating activities	(4,772,233)	(3,243,088)
Cash flow from investing activities	(244,864)	(5,369,216)
Cash flow from financing activities	950,190	185,572
Change in cash	(4,066,907)	(8,426,732)

Operating activities

Cash used by operations for the nine months ended December 31, 2019 was $4,772,233 (2018 − $3,243,088). 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 $7,846,122 at December 31, 2019 (March 31, 2019 - $7,730,894).

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. In November 2019, the Company received approval to be a licensed producer of medicinal cannabis and, as such, the facility is fully employable and depreciation of the facility commenced.

Total property, plant and equipment additions for the nine months ended December 31, 2019 were $200,899.

The Company's intangible assets consist of its websites, trademarks and related costs, and intellectual property which had a net book value of $163,770 at December 31, 2019 ($155,508 at March 31, 2019). Intangible asset additions for the nine months ended December 31, 2019 totaled $43,965 (2018 - $53,910) 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 nine months ended December 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 $797,690 during the nine 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 was 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. The Company was required to repay the principal amount in 18 equal monthly installments which were set to commence on August 21, 2019. Net cash proceeds, after issuance costs (but excluding legal fees), was $4,242,204.

However, the Company completed a waiver, amendment and funding agreement supplement (the "Waiver") for the CSFA on October 7, 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 as just noted. The Waiver 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 December 31, 2019, the current portion of the original convertible note, after giving effect to the transactions within the Waiver, is 2,800,000 ($2,500,000 on the original convertible note and $300,000 on the new convertible note).

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 nine month period ended December 31, 2019, the Company incurred a comprehensive loss of $5,907,435 and, as of that date had a deficit of $20,378,455. The Company earned revenues of $1,612,449 (2018 - $1,715,775) 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 financings 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. In addition, the Company is looking at alternative methods of generating cash flow with would include, but not be limited to, sale of assets, securing additional debt and potential joint venture opportunities.

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.

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

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) Related party transactions for the nine months ended December 31, 2019 and 2018 at the amounts agreed upon between the parties:

	Nine Months Ended December 31,	
	2019	2018
Paid to the Chief Executive Officer for office space rental	$ 49,825	$ 22,500
Paid to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	$ 306,951	$ 75,891

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.

	Nine Months Ended December 31,	
	2019	2018
Director compensation (non-Executive):		
Salaries and consulting fees	$ 42,000	$ 59,375
Share-based compensation	13,661	110,771
	55,661	170,146
Management compensation:		
Salaries and management fees	539,625	168,733
Share-based compensation	152,500	149,321
	692,125	318,054
	$ 747,786	$ 448,200

a) Amounts due from key management and a current director of $174,229 are included in accounts receivable at December 31, 2019 (March 31, 2019: $72,335) and are unsecured and non-interest bearing.

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 February 27, 2020 the total number of issued and outstanding common shares was 101,412,099 and there were no preferred shares outstanding.

During the nine months ended December 31, 2019 and through to February 27, 2020, the Company issued the following securities:

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.

Stock Options

As at December 31, 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**		

Stock option transactions are summarized as follows:

	Number of Options	W'ted Ave. 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, December 31, 2019	**6,385,000**	**0.58**

As of the February 27, 2020, the balances had not changed.

Warrants

As at December 31, 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	W'ted Ave. 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	2,160,000	0.21
Balance, December 31, 2019		**8,642,143**	**0.49**

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

Number of Warrants	Price ($)	Expiry Date
857,143	1.05	21-Nov-20
5,625,000	0.51	21-Feb-22
2,160,000	0.21	22-Mar-22
8,642,143		

As of the February 27, 2020, the balances had not changed.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the 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.

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 provides information about the Company's risk exposure and concentration as of December 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 December 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 December 31, 2019, the Company has cash and cash equivalents of $410,574 (March 31, 2019 - $4,391,072) to settle current liabilities of $4,265,641 (March 31, 2019 - $3,659,829). The Company also has short-term investments of $57,500 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.

Currency risk

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

The Company's main risk is associated with fluctuations in Canadian and U.S. dollars and Euros. Assets and liabilities are translated based on the Company's foreign currency translation policy. The Company has determined that, with other variables unchanged, the effect of a 10% increase in the Canadian dollar as at December 31, 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 $81,000 to the net loss and comprehensive loss for the nine months ended December 31, 2019 (2018 – increase of approximately $44,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

At December 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, 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.

APPROVAL

The Company's Board of Directors has approved the disclosures in this MD&A as of February 27, 2020.

ADDITIONAL INFORMATION

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