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

March 1, 2021

# MANAGEMENT DISCUSSION & ANALYSIS

This Management's Discussion & Analysis (this "MD&A") has been prepared by management and should be read in conjunction with the annual consolidated financial statements of the Company together with the related notes thereto for the nine months ended December 31, 2020. The consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* as issued by the *International Accounting Standards Board* ("IASB") ("IFRS") and interpretations of the *International Financial Reporting Interpretations Committee* ("IFRIC"). All amounts are stated in Canadian dollars unless otherwise indicated.

## FORWARD LOOKING STATEMENTS

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

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the annual consolidated financial statements of the Company together with the related notes thereto for the nine months ended December 31, 2020 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.

## 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 was the legal parent of True Leaf Investments Corp. ("TLI"), True Leaf Cannabis Inc. ("TLC"), True Leaf Pet Inc. ("TLP") and True Leaf Pet Europe LLC Sàrl ("TLPE"). TLI, TLC and TLP 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 TLPE 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.

On September 11, 2020 the shares of TLPE were sold in conjunction with the sale of the assets of its parent company TLP. On October 2, 2020 TLP was rendered bankrupt after the stay of creditors expired.

The Company's shares trade on the Canadian Securities Exchange (the "CSE") under the symbol "MJ", the OTC Market Group's OTC Pink International Market under the ticker symbol "TRLFF" and the Frankfurt Stock Exchange under the symbol "TLAA".

## OUR BUSINESS

Founded in 2013, True Leaf had two main operating divisions: True Leaf Pet Inc. and True Leaf Cannabis Inc. The True Leaf Pet division was incorporated with the goal to build a brand, sell products and generate revenue in the global pet product marketplace. True Leaf Cannabis was created to become a 'Licensed Producer' of legal cannabis under Canada's *Cannabis Act;* it submitted its application in April 2014 and received approval for cultivation, processing and medical sales in November 2019.

True Leaf Cannabis Inc was incorporated in July 2013 to become a licensed producer of medicinal cannabis for the Canadian market under Canada's *Marihuana for Medical Purposes Regulations ("MMPR")* program administered by Health Canada. The program changed to become the *Access to Cannabis for Medical Purposes Regulations ("ACMPR")* in August 2016 and once again in October of 2018 to become the *Cannabis Act*, 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. On November 22, 2019, the Company, through True Leaf Cannabis ("TLC"), 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.

The Company started construction of its 19,500 square foot cannabis cultivation and processing facility in Lumby BC in 2018 and substantially completed it in 2019, investing $3,380.387 in land and $7,846,122 in construction and equipment acquisitions. The Company was positioned to launch its licensed cannabis operations when cash constraints halted business development and the Company began a restructuring process.

## SUMMARY OF SIGNIFICANT EVENTS – FISCAL 2021

April 2020

- Entered creditor protection under the Bankruptcy and Insolvency Act ("BIA" or "BIA process").
- Engaged Clark Wilson LLP as legal counsel for the BIA process.
- Began a restructuring process.
- Began a sale process for the assets of TLC and TLP.
- Severed all senior executive employment contracts.
- Accepted the resignation of Darcy Bomford as Chief Executive Officer.
- Engaged Jennifer Pace as Interim Chief Financial Officer and Allen Fujimoto as Chief Restructuring Officer and Interim Chief Executive Officer.
- Secured Debtor in Protection credit facility with Lind Asset Management for $700,000.

May 2020

- Designed sales process for TLC Lumby Campus and TLP assets and solicited potential buyers.

June 2020

- Received proposals for the purchase of TLP assets and TLC Lumby Campus.

July 2020

- Negotiated terms of sale agreements.
- Engaged potential investors for TLC and TLB.

August 2020

- Executed sale agreement for TLP assets including the shares of TLP Europe.

September 2020

- Completed the sale of TLP assets and TLPE to 4033001 and its parent company, Hemp Technology Inc., both Wyoming Corporations.
- The Company announced the resignation of its interim CEO, Allen Fujimoto; Kevin Cole, President of True Leaf Pet Inc; Melissa Vettoretti as Corporate Secretary and three other board members, Jodi Watson, Mike Mardy and Sylvain Toutant
- Darcy Bomford, True Leaf's founder, assumed the position of interim CEO and corporate secretary and Jennifer Pace was appointed to the board of directors.
- Continued discussions with investors for TLC and TLB.
- A Binding Term Sheet was entered into to refinance TLB, True Leaf Investments ("TLI") and TLC Inc and buy the debt held by Lind Asset Management ("Lind").
- TLC filed a proposal to its creditors.
- The Company applied to the British Columbia Securities Commission ("BCSC"), under NP 12-203, requesting that a temporary management cease trade order ("MCTO") be granted in respect of the anticipated late filing of the Company's annual audited financial statements, management's discussion and analysis, and officers' certificates for the year ended March 31, 2020 (collectively the "Annual Filings").

October 2020

- TLC's proposal was passed by the required majority of creditors at the creditors meeting.
- TLB filed a proposal to its creditors & the proposal was passed by the required majority of creditors at the creditors meeting.
- TLI filed a proposal to its creditors & the proposal was passed by the required majority of creditors at the creditors meeting.

## SUMMARY OF SIGNIFICANT EVENTS – FISCAL 2021 (Continued)

November 2020

- TLB, TLC and TLI made applications to the Court in their respective restructuring proceedings.
- The Court granted an order in True Leaf's restructuring proceedings approving the refinancing transaction (the "Transaction") between TLB, TLC, TLI, Lind Asset Management XV, LLC , The Australian Special Opportunity Fund, LP, Canguard Mortgage Investment Corporation ("Canguard") and its related acquisition entities pursuant to a term sheet between the parties dated September 11, 2020 and the sale of the shares of True Leaf Investments Ltd. to Canguard's acquisition companies ("Acquisition Cos") in accordance with the Transaction.
- The application to approve TLB's proposal to its creditors was adjourned generally and heard at a later date simultaneously with the application for the Company's plan of arrangement under the British Columbia Business Corporations Act, in accordance with the Company's proposal to its creditors and the agreement reached with Canguard.
- TLB entered into a definitive merger agreement (the "Merger Agreement") with the Acquisition Cos to re-acquire TLC and TLI. The Acquisition Cos are at arm's length to the Company and are owned by private investors.

December 2020

- Completed consolidation of all of the Company's issued and outstanding common shares on the basis of nine to one.
- Completed an amalgamation and issued 17,416,980 post-consolidation shares for the reacquisition of TLC as part of the plan of arrangement to exit the BIA process.

January 2021

- Opened a non-brokered private placement offering to raise gross proceeds of not less than $150,000 and up to $1,000,000 at $0.36 per share
- Began development of medical on-line cannabis sales website

February 2021

- Engaged Grow Box Consulting Ltd. to oversee startup of grow operations, revisions to Standard Operating Procedures and consult in the construction of 128 light grow space in existing facility
- Completed furnishing grow rooms and initiated trial run of grow equipment
- Closed private placement oversubscribe with gross proceeds of $1,534,419

## CORPORATE DEVELOPMENTS

In March 2020, the True Leaf Group of Companies received a notice of default from its principal creditor, Lind Asset Management XV, LLC ("Lind") in respect of secured debt owed to Lind in the face amount of $5,940,000. (the "Lind Debt"). Shortly thereafter, TLB, TLI, TLC and TLP commenced restructuring proceedings and sought creditor protection by each filing a Notice of Intention to make a proposal (the "NOI Proceedings") under the Bankruptcy and Insolvency Act (Canada) (the "BIA").

The NOI Proceedings commenced in April 2020. The assets or shares of TLC and TLP were marketed through a sales process overseen by the Company's Trustee FTI Consulting ("FTI"). On August 14, 2020, an agreement for the sale of substantially all of TLP's assets including the shares of TLPE was signed with 4033001 and its parent company, Hemp Technology Inc., both Wyoming Corporations. Gross proceeds of $300,000 was applied against the outstanding Lind debt.

## CORPORATE DEVELOPMENTS (Continued)

Between late September and early October 2020, each of TLC, TLI and TLB filed a proposal to their respective creditors with the Office of Superintendent in Bankruptcy. The terms of these proposals (the "BIA Proposals") were based upon an agreement dated September 11, 2020 (the "Refinancing Agreement") among Lind, the Australian Special Opportunity Fund, LP ("ASOF"), Canguard Mortgage Investment Corporation ("Canguard"), 1263815 BC Ltd. ("Second Mortgage Co" and, together with Canguard, the "Canguard Entities") and two newly-incorporated British Columbia companies ("Acquire Co #1" and "Acquire Co #2") owned by a group of new investors (the "New Investor Group"). The terms of the Refinancing Agreement and a proposed share capital reorganization of TLB (the "TLB Share Capital Reorganization") are summarized below.

***Refinancing Agreement***

Following creditor approval and Court approval in early November 2020 of the BIA Proposals filed by TLC and TL International, the transactions contemplated by the Refinancing Agreement were completed on November 16, 2020.

The material terms of the Refinancing Agreement transaction were as follows:
• Canguard loaned $3,000,000 to TLC (the "Canguard Loan") secured by a first mortgage on the Lumby Property and a first priority security interest in all of TLC's present and after-acquired personal property.
• Second Mortgage Cox loaned $1,700,000 to TLC (the "Second Mortgage Co Loan") secured by a second mortgage on the Lumby Property and a second priority security interest in all of TLC's present and after-acquired personal property.
• TLC used all of the proceeds of the Canguard Loan and $1,150,000 of the proceeds of the Second Mortgage Co Loan, being an aggregate of $4,150,000 million, to pay down the Lind Debt and accrued interest of $6,315,088 plus DIP financing and accrued interest of $716,520.
• Acquire Co #1 purchased:
  o from TLI, all of the issued and outstanding shares of TLC; and
  o from TLB all of the issued and outstanding shares of TLI

in each case, for a purchase price of $1. Simultaneously, TLI exercised an option to re-purchase from Acquire Co #1 all of the issued and outstanding shares of TLC for $1.
• Acquire Co #2 purchased from ASOF all of the issued and outstanding shares of Lind for a purchase price of $1.

***TLB Share Capital Reorganization***

The following steps were executed on the closing December 11, 2020:

• TLB will, by way of a consent resolution of the directors of TLB, effected the Consolidation, which consisted of an alteration of its articles of incorporation in accordance with the BCBCA to consolidate its issued and unissued share capital on the basis of nine old TLB shares for one new TLB share;
• in order to implement the Vend-in, a newly-created single purpose subsidiary of TLB amalgamated with Acquire Co. #1 and Acquire Co. #2 to form a new company ("Amalco") in what is referred to as a three-cornered amalgamation in which:
  o the former shareholders of Acquire Co. #1 and Acquire Co. #2 received shares of TLB and thereby become shareholders of TLB;
  o TLB received all of the issued and outstanding shares of Amalco; and
• immediately thereafter, and as a final corporate housekeeping step, Amalco was vertically amalgamated into TLB, thereby eliminating Amalco as a subsidiary and creating a direct parent/subsidiary relationship between TLB and TLI.

As a result, the former shareholders of Acquire Co. #1 and Acquire Co. #2 (ie. the New Investor Group) become, collectively, the majority shareholders of TLB and the corporate structure of the True Leaf group of companies, as it existed prior to November 16, 2020 was restored.

## STRATEGIC OUTLOOK

The initial Lumby True Leaf Cannabis 'hub' is now completed, licenses for medical sales, cultivation and processing have been secured and the business plan and excise stamp bond have been submitted to the CRA.

The Company successfully exited the BIA process with a stronger balance sheet. This included the removal of the Lind Debt and DIP loan totalling $7,031,608 which was replaced by a first and second mortgage totalling $4,700,000. The Company also shed over one million dollars of liabilities associated with the Pet companies (TLP & TLPE) and reduced TLB's trade payables by 90% as part of the process. The management has positioned the company to build its cannabis business with a recent capital raise and looks forward to revenue generation in the current calendar year.

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

1. Reach out and build key relationships with the craft cannabis community in BC and the rest of Canada.

2. Receive CRA sales licenses.

3. Submit subsequent 'two-batch amendments' for products produced and/or purchased in order to register and sell products under the cultivation, processing and medical sales licenses.

4. Finalize the long-range plan to build shareholder value by leveraging the Company's cannabis license to generate revenue in these verticals:
   - Buying, processing, packaging and re-selling high quality craft cannabis into these two channels:
     - Medical online sales
     - Co-branded product sales into Canada's retail cannabis stores nationwide
   - Cultivation of high-quality craft cannabis in the Company's existing facility and potential new wing.
   - Providing on-site anti-microbial services to craft cannabis producers
   - Processing of raw ingredients into value-added 'cannabis 2.0' products

5. Acquire processing equipment targeting revenue generation by late 2021.

6. The potential sale of industrial lots from the Company's 40 acre site (subject to subdivision approval)

7. Complete an EU-GMP audit and receive third party EU-GMP accreditation to facilitate export of cannabis to approved countries.

8. Assess and explore international leads and possible sales contracts for cannabis products sold and exported under the Company's license.

9. Secure financing and commence construction of the phase II processing and cultivation wing at the Lumby Cannabis Campus.

(Expressed in Canadian dollars)

## DISCONTINUED OPERATIONS, IMPAIRMENT & DISPOSALS (Continued)

On August 14, 2020, a sale agreement for substantially all of the assets of TLP for the sum of $300,000 was entered into with 4033001 and its parent company, Hemp Technology Inc., both Wyoming Corporations. This triggered an impairment test as of March 31, 2020 of the assets of TLP.

On September 11, 2020, a Binding Term Sheet was entered into to refinance TLB, TLC and TLI, and buy the debt held by Lind Asset Management. This triggered an impairment test as of March 31, 2020 of the assets of TLC. The value of the sale and loan agreement is $4,700,000.

The following values were recorded as impairments for the year ended March 31, 2020:

| | Carrying Value | Impairment | Value after impairment | Continued Operations | Held for Sale |
|---|---|---|---|---|---|
| Inventory | $ 513,006 | $ 393,432 | $ 119,574 | $ 89,415 | $ 30,159 |
| Prepaid expenses | 321,745 | - | 321,745 | 318,797 | 2,948 |
| Land | 3,380,387 | 2,579,195 | 801,192 | 801,192 | - |
| Building | 7,483,731 | 3,901,900 | 3,581,831 | 3,581,831 | - |
| Equipment | 289,702 | 190,289 | 99,413 | 99,413 | - |
| Intangible assets | 153,638 | 78,077 | 75,561 | 55,053 | 20,508 |
| | **$ 12,142,209** | **$ 7,142,893** | **$ 4,999,316** | **$ 4,945,701** | **$ 53,615** |

For the nine months ended December 31, 2020 and 2019 the following income arising from discontinued operations include the operating income of TLP and TLPE:

| | | | Total December 31, | |
|---|---|---|---|---|
| | **TLP** | **TLPE** | **2020** | **2019** |
| Sales | $ 337,195 | $ 248,980 | $ 586,175 | $ 1,681,158 |
| Cost of sales | 92,530 | 180,689 | 273,219 | 843,963 |
| Gross Profit | 244,665 | 68,291 | 312,956 | 837,195 |
| Operating Expenditures | | | | |
| Administrative and office | 674,462 | 143,138 | 817,600 | 1,333,761 |
| Amortization and depreciation | - | - | - | 73,819 |
| Inventory write-down | - | 182 | 182 | 36,161 |
| Research and development | - | - | - | 21,797 |
| Selling and marketing | 154,286 | 21,797 | 176,083 | 1,050,827 |
| Share-based compensation | - | - | - | 102,500 |
| Total operating expenditures | 828,748 | 165,117 | 993,865 | 2,618,865 |
| Loss from discontinued operations | $ (584,083) | $ (96,826) | $ (680,909) | $ (1,781,670) |
| Other income | 86,528 | - | 86,528 | - |
| Foreign exchange gain (loss) | (7,269) | (34,810) | (42,079) | (82,596) |
| Loss and comprehensive loss for the year | **$ (504,824)** | **$ (131,636)** | **$ (636,460)** | **$ (1,864,266)** |

Prior year comparative results have been restated and presented for comparison purposes.

(Expressed in Canadian dollars)

## SUMMARY OF QUARTERLY RESULTS

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

| Description | Three Months Ended | | | |
|---|---|---|---|---|
| | 31-Dec-20<br>$ | 30-Sep-20<br>$ | 30-Jun-20<br>$ | 31-Mar-20<br>$ |
| Revenues | - | 267,862 | 318,313 | 688,385 |
| Total operating expenditures | (5,454) | (319,544) | (668,867) | (1,047,162) |
| Loss and comprehensive loss for period | (104,350) | (98,707) | (433,403) | (1,335,429) |
| Basic and diluted loss per share * | (0.00) | (0.01) | (0.04) | (0.12) |

| Description | Three Months Ended | | | |
|---|---|---|---|---|
| | 31-Dec-19<br>$ | 30-Sep-19<br>$ | 30-Jun-19<br>$ | 31-Mar-19<br>$ |
| Revenues | 483,728 | 704,538 | 410,296 | 595,101 |
| Total operating expenditures | (717,419) | (890,712) | (872,073) | (962,784) |
| Loss and comprehensive loss for period | (499,871) | (560,788) | (664,945) | (661,911) |
| Basic and diluted loss per share * | (0.04) | (0.05) | (0.06) | (0.06) |

* Certain comparative figures were reclassified in the consolidated financial statements for the years ended March 31, 2020 and 2019 and the quarterly figures above reflect those reclassifications to discontinued operations. Per share calculations have been restated to account for the 9 to 1 consolidation completed on December 10, 2020.

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. The Company continued 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. On August 11, 2020, an agreement for the sale of substantially all of TLP's assets including the shares of TLPE was signed with 4033001, and its parent company Hemp Technology Inc. On September 11, 2020 the Company closed on the sale agreement and all assets of TLP including the shares of TLPE were sold for the sum of $300,000, a loss of $46,856 on disposal was recognized as the proceeds were insufficient to retire the Lind Debt.

## LIQUIDITY AND CAPITAL RESOURCES

*Working Capital*

The Company incurred a net loss of from continued operations of $4,698,025 for the nine months ended December 31, 2020 (2019 - $4,043,169). The Company presented losses from discontinued operations related to TLP and TLPE separately in its financial statements.

The working capital analysis has been completed including current assets and liabilities held for sale within their traditional classifications and excludes intangibles, prepaid expenses and inventory held for sale. As of December 31, 2020, the Company had an ending cash position of $128,762. As of March 31, 2020, the Company had an ending cash position of $353,975, of which $51,750 was held in short-term investments. Working capital (current assets, less current liabilities) for the nine months ended December 31, 2020 was ($5,026,372) versus the year ended March 31, 2020 of ($6,616,034). The Company has used working capital to fund the BIA process.

## LIQUIDITY AND CAPITAL RESOURCES (Continued)

Accounts receivable of $174,588 (March 31, 2020 - $400,808) include trade receivables of $nil (March 31, 2020 - $186,994). Receivables also include a $144,576 GST receivable (March 31, 2020 - $145,502).

As of December 31, 2020, prepaid expenses and deposits decreased from $318,797 at March 31, 2020 to $228,949, which includes prepaid insurance premiums of $8,289, prepaid construction deposits of $100,077 and prepaid mortgage interest of $120,000.

*Investing activities*

The Company's property, plant and equipment consist of the building in Lumby, office furniture and equipment and leasehold improvements at the Company's head office.

During the year ended March 31, 2020 the Company capitalized $78,341 for final work to complete its two-story 19,500 square foot building in Lumby, BC, known as the True Leaf Campus. The completed building a small cannabis grow area, rooms for packaging and storage, plus additional rooms for future laboratory and whole-plant extraction services. Depreciation commenced when the facility was available for its intended use in the fall of 2019.

The Company entered creditor protection under the BIA process on April 2, 2020 and began a process of restructuring and marketing its assets to settle its debts. Through the process, bids were received, and a workout plan was reached that refinanced the company through a loan and merger agreement. This triggered a review of the value of the subsidiary TLC. The arrangement attributed a net value of the company at $4,700,000. The impairment was applied to land, property, plant and equipment and intangible assets on a pro-rata basis. The sale process of the TLP assets also triggered an impairment of property, plant and equipment based on the selling price of substantially all of that company's assets at a value of $300,000 less cost to sell of $39,775 for a net value of $260,225. All impairments were recorded as of the year ended March 31, 2020.

*Going Concern*

The 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 Months ended December 31, 2020, the Company incurred a loss of $5,334,485 and has a deficit of $36,001,346 The Company earned revenues of $586,175 (2019 - $1,681,158) from its subsidiaries True Leaf Pet Inc. ("TLP") and True Leaf Pet Europe S.A.R.L. ("TLPE"), however, these two subsidiaries did not achieve profitability. On April 2, 2020, the Company sought creditor protection by filing a Notice of Intention ("NOI") to make a proposal under the Bankruptcy and Insolvency Act (Canada) ("the BIA process") and the two subsidiaries containing net assets, TLP and TLC, were actively marketed for sale to settle the debts of the company. The sale of the assets of TLP and shares of TLPE closed on September 11, 2020, thereafter, the only remaining operations of the Company is through TLI and TLC.

The stay of proceedings in each of the restructuring proceedings of the Company and its subsidiaries expired on October 2, 2020. Prior to the expiry of the stay, TLB, TLC and TLI each filed a proposal to their respective creditors with the Office of Superintendent in Bankruptcy. TLB's proposal was filed on October 1, 2020, TLC's proposal was filed on September 23, 2020 and TLI's proposal was filed on October 2, 2020. Each proposal was based on a refinancing arrangement to resolve the Lind Asset Management Debt ("Lind Debt") and refinance the Company. TLP had no assets remaining and became bankrupt when the stay expired.

(Expressed in Canadian dollars)

## LIQUIDITY AND CAPITAL RESOURCES (Continued)

*Going Concern (Continued)*

The cannabis industry is young and developing. Regulations are frequently changing as Health Canada adjusts to the evolving processes and operations. This fact, along with the factors discussed in the preceding paragraphs results in a material uncertainty that casts significant doubt as to the Company's ability to continue to operate as a going concern. The recoverability of the carrying value of property, plant and equipment is dependent upon the success of the operating and financing activities and the future cannabis price. Changes in future conditions could require material write-downs of the carrying value of property, plant and equipment. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses, and the statement of financial position classifications used, and such adjustments could be material. The Company has been exploring and will continue to consider all of its options to maintain and raise capital when and as needed, including selling assets and/or issuing debt and/or equity securities subject to prevailing market conditions.

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

*Corona Virus (COVID-19)*

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

COVID-19 may impact the company's ability to start up cannabis growing, retail and medicinal on-line sales as a result of disruptions to supply chains, travel and trade restrictions and impact on local economic activity in affected regions. Such pandemics also represent a threat to maintaining a skilled workforce. There can be no assurance that the Company's personnel will not be impacted by this pandemic.

## RELATED PARTY TRANSACTIONS

a) The Company had the following transactions with related parties during the nine months ended December 31, 2020 and 2019 which were recognized at the amounts that were agreed upon between the two parties:

| | Nine months ended December 31, 2020 | 2019 |
|---|---|---|
| Paid or payable to the Chief Executive Officer for office space rental | $ 20,300 | $ 49,825 |
| Paid or payable to a company controlled by its Chief Executive Officer for costs associated with packaging inventory | $ - | $ 306,951 |

(Expressed in Canadian dollars)

## RELATED PARTY TRANSACTIONS (Continued)

b) Compensation of key management personnel

The Company considers its key management personnel to be its Directors, Chief Executive Officer and its Chief Financial Officer.

| | | Nine Months ended December 31, 2020 | | 2019 |
|---|---|---|---|---|
| Director compensation (non-Executive): | | | | |
| Salaries and consulting fees | $ | - | $ | 52,875 |
| Share-based compensation | | - | | 17,501 |
| | $ | - | $ | 70,376 |
| Management compensation: | | | | |
| Salaries and management fees | $ | 75,833 | $ | 342,090 |
| Share-based compensation | | - | | 191,653 |
| | $ | 75,833 | $ | 533,743 |
| | $ | 75,833 | $ | 604,119 |

c) During the nine months ended December 31, 2020 most executive contracts were terminated and severance pay of $609,375 was accrued. On October 2, 2020 TLP entered bankruptcy and $544,375 payable to past executive was written off, a settlement agreement of approximately $0.10 per dollar was approved for TLB and $229,514 was written down.

## 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.

The company completed a consolidation of its shares effective December 10, 2020, with a record date of December 11, 2020. Prior to the Consolidation, the Company had 102,370,431 pre-consolidation Shares issued and outstanding. Following the Consolidation, the Company had approximately 11,374,492 post-consolidation Shares issued and outstanding.

The Company had the following share capital transactions during the nine-month period ended December 31, 2020.

1. Pursuant to the amalgamation undertaken to reacquire TLC and TLI which had been acquired by the Acquisition Cos as part of the Company's proposals to its creditors and restructuring under the Bankruptcy and Insolvency Act (Canada), the Company issued 17,416,980 post-consolidated common shares at a deemed price of $0.375 per share to the shareholders of the Acquisition Cos

As of March 1, 2021, the total number of issued and outstanding common shares was 29,013,694 and there were no preferred shares outstanding.

(Expressed in Canadian dollars)

## SHARE CAPITAL (continued)

The Company had the following share capital transactions during the six-month period ended December 31, 2019:

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

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

3. The Company issued 916,666 pre-consolidation common shares to an executive as part of their employment contract and recorded $152,500 as share-based compensation expense with the same amount as an addition to share capital.

On February 4, 2021 the Company issued 222,222 Common shares at $0.36 per share to a contractor for consulting services.

*Stock Options*

As of March 1, 2021, the following stock options are outstanding and exercisable:

| Number of Options Outstanding | Exercisable | Exercise Price ( $ ) | Expiry Date |
|---|---|---|---|
| 66,667 | 66,667 | 8.46 | February 6, 2023 |
| 36,111 | 36,111 | 4.50 | July 31, 2023 |
| 33,333 | 11,110 | 5.04 | September 10, 2023 |
| 137,037 | 90,741 | 5.04 | March 6, 2024 |
| 27,778 | 27,778 | 5.49 | March 21, 2024 |
| 57,778 | 5,556 | 2.61 | July 25, 2024 |
| **358,704** | **237,962** | | |

Stock option transactions are summarized as follows:

| | | Number of Options | Weighted Average Exercise Price |
|---|---|---|---|
| **Balance, March 31, 2019** | | **869,444** | **5.13** |
| | Stock options granted | 120,556 | 2.61 |
| | Stock options exercised | (77,778) | 3.60 |
| | Stock options expired | (172,222) | 3.60 |
| | Stock options forfeited | (147,222) | 5.76 |
| **Balance, March 31, 2020** | | **592,778** | **5.13** |
| | Stock options forfeited | (234,074) | 5.94 |
| **Balance, December 31, 2020** | | **358,704** | **4.59** |

(Expressed in Canadian dollars)

## SHARE CAPITAL (continued)

*Warrants*

As of March 1, 2021, the following share purchase warrants are outstanding and exercisable:

Share purchase warrant transactions are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price $ |
|---|---|---|
| **Balance, March 31, 2019** | **1,199,340** | **4.59** |
| Warrants expired | (228,557) | 3.60 |
| Warrants exercised | (167,509) | 3.24 |
| Warrants cancelled | (83,037) | 3.24 |
| Warrants issued | 240,000 | 1.89 |
| **Balance, March 31, 2020** | **960,238** | **0.49** |
| Warrants expired | (95,238) | 9.45 |
| **Balance, December 31, 2020** | **865,000** | **0.43** |

As at March 1, 2021, the following share purchase warrants are outstanding:

| Number of Warrants | Price ( $ ) | Expiry Date |
|---|---|---|
| 625,000 | 4.59 | February 21, 2022 |
| 240,000 | 1.89 | October 7, 2022 |
| **865,000** | | |

## 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, accrued liabilities and note payable 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.

## FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (Continued)

**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 December 31, 2020:

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, 2020, 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 miscellaneous receivables related to passive rent.

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, 2020, the Company had cash and cash equivalents and short term investments of $128,762 (March 31, 2020 - $353,975) to settle current liabilities of $5,558,671 (March 31, 2020 - $7,832,644). The Company has exited creditor protection proceedings.

Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company was 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 were denominated in U.S. dollars. The results of the Company's operations are subject to currency translation and transaction risks.

On September 11, 2020 the assets of TLP and shares of TLPE were sold, the company no longer has exposure to foreign currency risk.

At December 31, 2020, 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, 2020, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

Capital Management

The Company's capital includes share capital, cash, a first and second mortgage 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 nine months ended December 31, 2020.

## 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.

*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. Management has reviewed the impact that adoption of the new standard had on the Company's consolidated financial statements and found no significant impact.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## SUBSEQUENT EVENTS

Subsequent to the nine months ended December 31, 2020:

a) The Company completed a private placement targeted at $1,000,000 on February 26, 2020. The offering was over-subscribed with gross proceeds of $1,534,419 through the sale of 4,262,436 common shares priced at $0.36 per share. The Company paid finder's fees of $104,900 in connection with the offering.

b) The Company issued 222,222 Common shares at $0.36 per share to a contractor for consulting services on February 4, 2021.

## APPROVAL

The Company's Board of Directors has approved the disclosures in this MD&A as of March 1, 2021.

## ADDITIONAL INFORMATION

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