

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

December 7, 2020

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**MANAGEMENT DISCUSSION & ANALYSIS**

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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 six months ended September 30, 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.

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**FORWARD LOOKING STATEMENTS**

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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.

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**MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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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 six months ended September 30, 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.

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(Expressed in Canadian dollars)

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## **CORPORATE BACKGROUND**

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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. (“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.

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**

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Founded in 2013, True Leaf has 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 Pet**

The Company’s goal was to be a global cannabis-for-pets brand leader by embracing natural alternatives to help pets live healthier, happier and longer lives. TLP’s formulations were created with veterinarian support and included hemp-derived cannabis and other plant-based ingredients to support hip and joint, calming and immune function. All products were developed to meet all local and federal regulatory approval part of the company’s broader goal to be a global brand leader in the cannabis-for-pets space.

TLP launched its original line of hemp-seed based pet supplements line in the fall of 2015 to the Canadian market, to the US market in March of 2016 and to the European market in May 2016. Sales continued to build as product line extensions were executed and distribution was increased to a store count of over 3000 by the summer of 2018. The company undertook consumer research and a major re-branding initiative in Fall 2018 and launched a re-branded hemp seed line in March 2019 and new ‘CBD’ line for the US market in August 2019. The new CBD line started shipping in early October to its distributors.

### **TLC**

True Leaf Cannabis 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

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**OUR BUSINESS (Continued)**

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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.

**SUMMARY OF SIGNIFICANT EVENTS – FISCAL 2021**

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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 BC Ltd. 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").

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

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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.

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 will be 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.

**CORPORATE DEVELOPMENTS**

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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 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.

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 B.C. Ltd. ("Second MortgageCo" and, together with Canguard, the "Canguard Entities") and two newly-incorporated British Columbia companies ("AcquireCo #1" and "AcquireCo #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.

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**CORPORATE DEVELOPMENTS (Continued)**

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***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 are 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 Co loaned Cdn\$1.7 million 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 Cdn\$4.15 million, to pay down the Lind Debt.
- 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 TLIin 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 substance of the TLB Share Capital Reorganization involves two basic elements:

1. A consolidation of the issued and outstanding TLB common shares (the “Consolidation”); and
2. The re-acquisition by TLB from Acquire Co #1 of all of the issued shares of TLI (and its subsidiary TLC, the owner of the Lumby Property and the holder of the Licence,) and the acquisition by TLB from Acquire Co #2 of all of the issued shares of Lind (holder of the residue of the Lind Debt), all in exchange for a sufficient number of newly issued TLB common shares to give the New Investor Group approximately 58% of the then issued and outstanding common shares of TLB (collectively, the “Vend-in”).

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

- TLB will, by way of a consent resolution of the directors of TLB, effect the Consolidation, which consists 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 ten old TLB shares for one new TLB share;
- in order to implement the Vend-in, a newly-created single purpose subsidiary of TLB will amalgamate 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 receive shares of TLB and thereby become shareholders of TLB;
  - o TLB receives all of the issued and outstanding shares of Amalco; and
- immediately thereafter, and as a final corporate housekeeping step, Amalco will be 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 is restored.

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## **STRATEGIC OUTLOOK**

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

1. Exit the BIA process with a new lender and strategic plan.
2. Successfully complete additional capital financings in order to fund the objectives of the Company's business plan.
3. With the Lumby facility complete and initial licenses for cultivation, processing and medical sales secured:
  - a) Submit a business plan and bond with Canada Revenue Agency
  - b) Submit the required 'two-batch amendments' for each class of products in order to register and sell products produced or purchased under the cultivation, processing and medical sales licenses
4. Finalize long range plan to build shareholder value by leveraging the Company's cannabis license to generate revenue in these verticals:
  - a. Buying and re-selling high quality craft cannabis
  - b. Medical online sales
  - c. Branded product sales into Canada's national retail cannabis stores
  - d. Cultivation of high-quality craft cannabis in the Company's existing facility and potential new wing.
  - e. Processing of bio-mass into value-added raw ingredients
  - f. B-site licensing contracts for QA services and supply
5. The possible build-out and lease of micro-cultivator locations on the Company's 40 acre site.
6. Have the Company's facility audited, approved and certified as a EU-GMP compliant.
7. Continue to nurture relationships and possible supply agreements with craft growers across Canada.
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 phase II of the Lumby Cannabis Campus.

## **DISCONTINUED OPERATIONS, IMPAIRMENT & ASSETS HELD FOR SALE**

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On April 2, 2020, TLB and its subsidiaries entered into creditor protection under the BIA Process. As part of the restructuring and to settle the payables and secured debt of the Company, an asset sale process was started again for TLP & TLC, the two companies that held assets.

IFRS 5 outlines the requirements for presentation of assets held for sale and the presentation and disclosure of discontinued operations. It requires that "An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use." "An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell."

Management determined that the Company has two groups of assets. The TLP assets are one cash-generating unit and include the shares of TLPE, accounts receivable, prepaid expenses, inventory as well as tangible and intangible property, plant and equipment. TLC's assets consist of land, building, equipment and intangible assets.

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.

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**DISCONTINUED OPERATIONS, IMPAIRMENT & ASSETS HELD FOR SALE**  
**(Continued)**

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
	<b>\$ 12,142,209</b>	<b>\$ 7,142,893</b>	<b>\$ 4,999,316</b>	<b>\$ 4,945,701</b>	<b>\$ 53,615</b>

The following assets have been classified as held for sale as of September 30, 2020:

	TLP	TLPE	Total
Inventory	\$ 30,159	\$ -	\$ 30,159
Prepaid expenses	-	2,970	2,970
Intangible assets	-	23,668	23,668
	<b>\$ 30,159</b>	<b>\$ 26,638</b>	<b>\$ 56,797</b>

There are no liabilities directly associated with the assets held for sale as at March 31, 2020 and September 30, 2020.

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**DISCONTINUED OPERATIONS, IMPAIRMENT & ASSETS HELD FOR SALE**  
**(Continued)**

For the six months ended September 30, 2020 the following income arising from discontinued operations include the operating income of TLP and TLPE:

			Total September 30,	
			2020	2019
	TLP	TLPE		
Sales	\$ 337,195	\$ 248,980	\$ 586,175	\$ 1,121,409
Cost of sales	92,343	180,689	273,032	558,446
Gross Profit	244,852	68,291	313,143	562,963
Operating Expenditures				
Administrative and office	676,500	135,646	812,146	1,086,294
Amortization and depreciation	-	-	-	48,193
Inventory write-down	-	182	182	-
Research and development	-	-	-	39,010
Selling and marketing	154,286	21,797	176,083	655,203
Total operating expenditures	830,786	157,625	988,411	1,828,700
Loss from discontinued operations	\$ (585,934)	\$ (89,334)	\$ (675,268)	\$ (1,265,737)
Other income	86,528	-	86,528	-
Foreign exchange gain (loss)	(5,298)	61,928	56,630	40,805
Loss and comprehensive loss for the year	\$ (504,704)	\$ (27,406)	\$ (532,110)	\$ (1,224,932)

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

**SUMMARY OF QUARTERLY RESULTS**

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

Description	Three Months Ended			
	30-Jun-20	30-Jun-20	31-Mar-20	31-Dec-19
	\$	\$	\$	\$
Revenues	586,175	318,313	688,385	483,728
Total operating expenditures	(988,411)	(668,867)	(1,047,162)	(717,419)
Loss and comprehensive loss for period	(532,110)	(433,403)	(1,335,429)	(499,871)
Basic and diluted loss per share	(0.01)	(0.00)	(0.01)	(0.00)

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**SUMMARY OF QUARTERLY RESULTS (Continued)**

Description	Three Months Ended			
	30-Sep-19	30-Jun-19	31-Mar-19	31-Dec-18
	\$	\$	\$	\$
Revenues	704,538	410,296	595,101	651,442
Total operating expenditures	(890,712)	(872,073)	(962,784)	(777,469)
Loss and comprehensive loss for period	(560,788)	(664,945)	(661,911)	(488,116)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.00)

\* 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.

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 were sold worldwide and online with Amazon. The Company had a group of distributors that provide access to thousands of third-party pet specialty stores. 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 1,993,858 for the six months ended September 30, 2020 (2019 - \$2,630,321). 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 at September 30, 2020, the Company had an ending cash position of \$42,275. As at 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 six months ended September 30, 2020 was (\$8,862,387) versus the year ended March 31, 2020 of (\$6,616,034). The Company has used working capital to fund the BIA process. During the six months ended September 30, 2020, the Company paid its trustee, FTI Consulting \$289,742 plus applicable taxes and its legal council, Clark Wilson, LLP \$199,140 plus applicable taxes in connection with the BIA process.

Accounts receivable of \$149,398 (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).

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**LIQUIDITY AND CAPITAL RESOURCES (Continued)**

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*Working Capital Continued*

As at September 30, 2020, prepaid expenses and deposits increased from \$318,797 at March 31, 2020 to \$376,047, which includes prepaid insurance premiums of \$100,635. Classified as held for sale is an additional \$2,970 of prepaid expenses.

*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 18,000 square foot building in Lumby, BC, known as the True Leaf Campus. The completed building has the research and development cannabis grow area, laboratory services and whole-plant extraction services. Depreciation commenced when the facility is 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 six months ended September 30, 2020, the Company incurred a loss of \$2,525,969 and has a deficit of \$33,192,830. The Company earned revenues of \$586,175 (2019 - \$1,121,409) from TLP and 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. As a result, the assets and liabilities associated with TLP and TLPE were classified as held for sale and their operations classified as discontinued operations (Note 5) as of March 31, 2020. On September 11, 2020 the assets of TLP and shares of TLPE were sold, thereafter, the only remaining operations of the Company is through TLI and TLC.

True Leaf received a "Notice of Event of Default, Investigation of Event of Default and Reservation of Rights" letter (the "Default Notice") from Lind Asset Management XV, LLC ("Lind") under the Company's convertible security funding agreement dated February 12, 2019, and under the waiver, amendment and funding supplement agreement dated October 7, 2019. The Company then commenced restructuring proceedings and it sought creditor protection by filing a Notice of Intention to make a proposal under the Bankruptcy and Insolvency Act (Canada) (the "NOI Proceeding").

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**LIQUIDITY AND CAPITAL RESOURCES (Continued)**

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*Going Concern (Continued)*

As part of the sales process approved by Order of the British Columbia Supreme Court made on May 13, 2020, TLP entered into a purchase and sale agreement dated August 11, 2020, with 4033001 and Hemp Technology Inc. for the sale of substantially all of the assets of TLP. 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.

The company is currently in default of the terms of its Convertible Security Funding Agreement with a face value of \$5,400,000 and its Deferral Convertible Security with a face value of \$540,000. The Company will need to refinance/restructure its current debt and obtain additional financing in order to meet its near-term operating cash requirements, debt payments and sustaining capital expenditures. There is no assurance that the Company's financing initiatives, which include the Company's ability to restructure the notes under the BIA process will be successful or sufficient.

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

The purpose of the BIA process discussed below is to facilitate the continuation of the business as a going concern, address certain liabilities of the Company, and effect a recapitalization and financing transaction on an expedited basis to provide a stronger financial foundation for the Company going forward. The BIA process will also provide additional liquidity to allow the Company to continue to work towards its operational and financial goals from and after its implementation, in the expectation that all persons with an economic interest in the Company will derive a greater benefit from the implementation of the proposals than would otherwise result.

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

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**LIQUIDITY AND CAPITAL RESOURCES (Continued)**

*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 six months ended September 30, 2020 and 2019 which were recognized at the amounts that were agreed upon between the two parties::

	Six months ended September 30,	
	2020	2019
Paid or payable to the Chief Executive Officer for office space rental	\$ 14,750	\$ 37,135
Paid or payable to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	\$ -	\$ 54,300

- 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.

	Six Months ended September 30,	
	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 six months ended September 30, 2020 most executive contracts were terminated and severance pay of \$609,375 was accrued. Amounts due to key management and a current director of \$655,312.50 are included in accounts payable at September 30, 2020 (March 31, 2019: \$237,505) and are unsecured, non-interest bearing.

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**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 December 7, 2020, the total number of issued and outstanding common shares was 102,370,431 and there were no preferred shares outstanding.

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

1. The Company issued 1,507,578 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$521,190.
2. The Company issued 400,000 common shares pursuant to the exercise of share options for proceeds of \$158,000. Additional proceeds of \$118,500 were recorded during the period in respect of an option exercise for 300,000 shares.
3. The Company issued 250,000 common shares to an executive as part of their employment contract and recorded \$72,500 as share-based compensation expense with the same amount as an addition to share capital.

The Company did not have any share capital transactions during the six-month period ended September 30, 2020.

Stock Options

As at December 7, 2020, the following stock options are outstanding and exercisable:

Number of Options	Exercise Price		Expiry Date
Outstanding	Exercisable	(\$)	
600,000	600,000	0.94	February 6, 2023
325,000	325,000	0.50	July 31, 2023
300,000	99,990	0.56	September 10, 2023
1,233,333	816,667	0.56	March 6, 2024
250,000	250,000	0.61	March 21, 2024
520,000	50,000	0.29	July 25, 2024
<b>3,228,333</b>	<b>2,141,657</b>		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance, March 31, 2019</b>	<b>7,825,000</b>	<b>0.57</b>
Stock options granted	1,085,000	0.29
Stock options exercised	(700,000)	0.40
Stock options expired	(1,550,000)	0.43
Stock options forfeited	(1,325,000)	0.56
<b>Balance, March 31, 2020</b>	<b>5,335,000</b>	<b>0.57</b>
Stock options forfeited	(2,106,667)	0.66
<b>Balance, December 7, 2020</b>	<b>3,228,333</b>	<b>0.51</b>

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**SHARE CAPITAL (continued)**

*Warrants*

As at December 7, 2020, the following share purchase warrants are outstanding and exercisable:

b) Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price \$
<b>Balance, March 31, 2019</b>	<b>10,794,063</b>	<b>0.51</b>
Warrants expired	(2,057,010)	0.40
Warrants exercised	(1,507,578)	0.36
Warrants cancelled	(747,332)	0.36
Warrants issued	2,160,000	0.21
<b>Balance, March 31, 2020</b>	<b>8,642,143</b>	<b>0.49</b>
Warrants expired	(857,143)	1.05
<b>Balance, December 7, 2020</b>	<b>7,785,000</b>	<b>0.43</b>

As at December 7, 2020, the following share purchase warrants are outstanding:

Number of Warrants	Price ( \$ )	Expiry Date
5,625,000	0.51	February 21, 2022
2,160,000	0.21	October 7, 2022
<b>7,785,000</b>		

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**FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT**

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**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.

**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, 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 September 30, 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 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, 2020, the Company has cash and cash equivalents and short term investments of \$42,275 (March 31, 2020 - \$353,975) to settle current liabilities of \$9,430,107 (March 31, 2020 - \$7,832,644).

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 discontinue operations were subject to currency translation and transaction risks.

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**FINANCIAL INSTRUMENTS, RISK AND CAPITAL MANAGEMENT (continued)**

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Currency risk (Continued)

The Company's main risk is associated with fluctuations in Canadian and U.S. dollars and Euros. Assets and liabilities were 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, 2020:

- against the Euro on its net European operations, and
- against the U.S. dollar on financial assets and liabilities, including cash, accounts receivable, accounts payable and accrued liabilities denominated in U.S. dollars

would result in a decrease of approximately \$nil to the net loss and comprehensive loss for the six months ended September 30, 2020 (2019 – decrease of approximately \$84,000). The inverse effect would result if the Canadian dollar weakened by 10% against the Euro and U.S. dollar.

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 September 30, 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 September 30, 2020, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

Other risk

Creditor protection in the BIA process present risks relating to the uncertainty of the proceedings and its outcome. The risks include, but are not limited to: the risk that the courts do not approve all transactions proposed in the workout plan; the Company's ability to obtain adequate financing to fund capital expenditures and working capital needs to maintain the Company's ongoing obligations exiting the BIA process; and the ability to maintain relationships with suppliers, employees and shareholders and other third parties in light of the Company's current liquidity situation.

Capital Management

The Company's capital includes share capital, cash, the convertible note payable, and the accumulated deficit. The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares in order to meet its financial obligations. The Company has not changed its approach to capital management during the six months ended September 30, 2020.

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## **CHANGES IN ACCOUNTING POLICIES**

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### 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**

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

## **PROPOSED TRANSACTIONS**

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### *TLB Share Capital Reorganization*

The substance of the TLB Share Capital Reorganization involves two basic elements:

1 - A consolidation (colloquially known as a “rollback”) of the issued and outstanding TLB common shares (the “Consolidation”) of one for ten; and

2 - The re-acquisition by TLB from Acquire Co #1 of all of the issued shares of TLI (and its subsidiary TLC, the owner of the Lumby Property and the holder of the Licence,) and the acquisition by TLB from Acquire Co #2 of all of the issued shares of Lind (holder of the residue of the Lind Debt), all in exchange for a sufficient number of newly issued TLB common shares to give the New Investor Group approximately 58% of the then issued and outstanding common shares of TLB (collectively, the “Vend-in”).

The proposed transaction is tied directly to the refinancing of the Company's debt with its sponsor through the BIA process.

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**SUBSEQUENT EVENTS**

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Subsequent to the six months ended September 30, 2020:

- a) Signed a First Mortgage Credit Facility with Canguard Mortgage Investment Company for \$3,000,000.
- b) Signed a Second Mortgage Credit Facility with 1263815 BC Ltd. for \$1,700,000.

**APPROVAL**

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The Company's Board of Directors has approved the disclosures in this MD&A as of December 7, 2020.

**ADDITIONAL INFORMATION**

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Additional information concerning the Company and its operations is available on SEDAR at [www.sedar.com](http://www.sedar.com).