

**True Leaf Brands Inc.**  
**Condensed Interim Consolidated Financial Statements**  
**For the Three Months ended June 30, 2021 and 2020**  
(Unaudited – Prepared by Management)  
(Expressed in Canadian dollars)

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

	Notes	June 30, 2021	March 31, 2021
<b>Assets</b>			
Current			
Cash and cash equivalents		\$ 193,584	\$ 480,833
Trade and other receivables	6	74,934	175,655
Inventories	7	10,264	-
Prepaid expenses and deposits	8	380,404	394,353
		659,186	1,050,841
Property, plant and equipment	9	4,712,748	4,488,653
Intangible assets	10	60,401	63,255
<b>Total assets</b>		<b>\$ 5,432,335</b>	<b>\$ 5,602,749</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		\$ 814,535	\$ 506,423
Mortgages payable	11	4,700,000	4,700,000
<b>Total liabilities</b>		<b>5,514,535</b>	<b>5,206,423</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	13	32,083,412	32,083,412
Reserves		5,336,086	5,203,114
Deficit		(37,501,698)	(36,890,200)
<b>Total shareholders' equity (deficiency)</b>		<b>(82,200)</b>	<b>396,326</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>\$ 5,432,335</b>	<b>\$ 5,602,749</b>

**Nature of operations and going concern (Note 1)**

**Subsequent events (Note 21)**

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

Approved on behalf of the Board of Directors on August 30, 2021

"Darcy Bomford"

Director

"Michael Harcourt"

Director

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

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

	Notes	For the three months ended June 30,	
		2021	2020
Revenue	7	\$ 5,624	\$ -
Operating Expenditures			
Administrative and office	15	431,268	1,123,632
Amortization and depreciation	9, 10	32,706	27,521
Selling and marketing	16	100,123	17,952
Share-based compensation	12, 13	132,972	48,456
Total operating expenditures		697,069	1,217,561
Loss from operations		(691,445)	(1,217,561)
Other income	14	80,340	41,306
Foreign exchange gain (loss)		(393)	1,816
Net loss from continued operations		<b>(611,498)</b>	<b>(1,174,439)</b>
Loss from discontinued operations	5	-	(433,403)
Loss for the period		\$ (611,498)	\$ (1,607,842)
Weighted average number of common shares outstanding – basic and diluted *		20,326,186	11,357,931
Loss per common share, discontinued operations - basic and diluted		\$0.00	(\$0.04)
Loss per common share, continuingd operations – basic and diluted		(\$0.03)	(\$0.10)

**\*Prior year Weighted average number of common shares outstanding has been restated to reflect the effects of consolidation completed December 11, 2020**

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

**TRUE LEAF BRANDS INC.**  
**Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)**  
(Unaudited)  
(Expressed in Canadian dollars)

	<b>Number of Shares</b>	<b>Share Capital</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total Shareholders' Equity (Deficit)</b>
<b>Balance, March 31, 2020</b>	11,374,494	\$ 23,962,363	\$ 4,625,953	\$ (30,666,861)	\$ (2,078,545)
Share-based compensation	-	-	577,161	-	577,161
Shares issued to settle debt	17,639,202	6,611,368	-	-	6,611,368
Shares Issued for cash	4,262,436	1,534,479	-	-	1,534,479
Share issue costs	-	(99,796)	-	-	(99,796)
Bonus Shares	176,882	74,998	-	-	74,998
Fair value of warrants issued and equity component of convertible debt	-	-	-	-	-
Loss for the year	-	-	-	(6,223,339)	(6,223,339)
<b>Balance, March 31, 2021</b>	<b>33,453,014</b>	<b>\$ 32,083,412</b>	<b>\$ 5,203,114</b>	<b>\$ (36,890,200)</b>	<b>\$ 396,326</b>
Share-based compensation	-	-	132,972	-	132,972
Loss for the year	-	-	-	(611,498)	(611,498)
<b>Balance, June 30, 2021</b>	<b>33,453,014</b>	<b>\$ 32,083,412</b>	<b>\$ 5,336,086</b>	<b>\$ (37,501,698)</b>	<b>\$ (82,200)</b>

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

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

	Notes	Three months ended June 30,	
		2021	2020
<b>Operating activities</b>			
Loss for the period from continuing operations		\$ (611,498)	\$ (1,174,439)
Items not affecting cash:			
Non cash interest expense		-	226,087
Amortization and depreciation	9,10	32,706	27,521
Transaction cost of loan extension		-	19,000
Share-based compensation	12,13	132,972	48,456
Changes in non-cash working capital items:			
Prepaid expenses and deposits	8	13,949	(36,405)
Accounts payable and accrued liabilities		308,112	194,494
Due to related parties		-	876,455
Inventories	7	(10,264)	-
Trade and other receivables	6	100,721	(8,857)
<b>Net cash used in operating activities</b>		<b>(33,302)</b>	<b>172,312</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	9	(253,947)	(4,700)
<b>Net cash used in investing activities</b>		<b>(253,947)</b>	<b>(4,700)</b>
<b>Financing activities</b>			
Proceeds of loan		-	300,000
<b>Net cash provided by financing activities</b>		<b>-</b>	<b>300,000</b>
Change in cash and cash equivalents - continued operations		(287,249)	467,612
Change in cash - discontinued operations	5	-	(692,517)
Cash and cash equivalents, beginning of the year (including discontinued operations)		480,833	302,225
<b>Cash and cash equivalents, end of the year*</b>		<b>\$ 193,584</b>	<b>\$ 77,320</b>

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

**TRUE LEAF BRANDS INC.**  
**Notes to Condensed Consolidated Interim Financial Statements**  
**For the three months Ended March 31, 2021**  
(Unaudited)  
(Expressed in Canadian dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN**

True Leaf Brands Inc. (formerly True Leaf Medicine International Ltd.) (the “Company” or “TLB”) 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”), True Leaf Pet Europe LLC Sàrl (“TLPE”), Lind Asset Management XV-II LLC (“Lind Sub”), 1279166 B.C. Ltd (“Amalco”) and True Leaf USA (TL USA”)

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.

In December 2020 through a series of transactions described below under Refinancing Agreement the Company acquired 100% of the outstanding shares of Lind Asset Management XV-II LLC through the acquisition of its parent company and the subsequent amalgamation of the parent company with a newly formed subsidiary of TLB, Amalco.

The Company’s shares trade on the Canadian Securities Exchange (the “CSE”) under the symbol “MJ”, the OTC Market Group’s OTCQX International Market under the ticker symbol “TRLFF” and the Frankfurt Stock Exchange under the symbol “TLA”. The Company’s head office and registered office is located at 1066 West Hastings Street, Suite 2600, Vancouver BC, V6E 3X1.

The Company has received approval to become a licensed producer of medicinal cannabis for the Canadian market under the new Cannabis Act and has secured three licenses from Health Canada to cultivate, process and sell medical cannabis.

***Going Concern***

These 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 three months ended June 30, 2021, the Company incurred a loss of \$611,498 and has a deficit of \$37,501,698. The Company has started up operations and recognized \$5,624 in income associated with the fair value of cannabis inventory.

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").

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). Thereafter, the only remaining operations of the Company is through TLI and TLC and on September 11, 2020 TLB closed the sale of TLP’s assets including the shares of TLPE.

**TRUE LEAF BRANDS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the three months ended June 30, 2021**  
(Expressed in Canadian dollars)

**1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)**

***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 Debt and refinance the Company.

The Company has two mortgages due on December 1, 2021 which total \$4,700,000. 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 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.

***Refinancing Agreement***

Following creditor approval and Court approval in early November 2020 of the BIA Proposals filed by TLC and TLI, the transactions contemplated by the Refinancing Agreement were completed on November 16, 2020. The proposals are sponsored by two financing groups, Canguard Mortgage Investment Corporation ("Canguard") and 1263815 BC Ltd. ("Second Mortgage Co.").

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 \$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, to pay down the Lind Debt to The Australian Special Opportunity Fund, LP ("ASOF"), the parent company of Lind.

**TRUE LEAF BRANDS INC.**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)**

***Refinancing Agreement (Continued)***

- Acquire Co #1 purchased:
  - from TLI, all of the issued and outstanding shares of TLC; and
  - 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 substance of the TLB's Share Capital Reorganization involved 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 17,416,980 of newly issued TLB common shares.

The following steps were executed on the closing on December 9, 2020:

- TLB, by way of a consent resolution of the directors of TLB, effected the Consolidation of its common shares, 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 nine old TLB shares for one new TLB share;
- in order to implement the Vend-in, a newly-created single purpose subsidiary of TLB was 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:
  - the former shareholders of Acquire Co #1 and Acquire Co #2 receive shares of TLB and thereby become shareholders of TLB;
  - TLB received all of the issued and outstanding shares of Amalco;

***Corona Virus (COVID-19)***

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. 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.



**TRUE LEAF BRANDS INC.**  
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**1. NATURE OF OPERATIONS AND GOING CONCERN (Continued)**

***Corona Virus (COVID-19)***

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. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty, and accordingly estimates of the extent to which the COVID-19 pandemic may materially and adversely affect the Company's operations, financial results and condition in future periods are also subject to significant uncertainty. 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.

Inputs and assumptions relate to, among other things, interest rates, foreign exchange rates, cost of capital, commodity prices, and the amount and timing of future cash flows, while accounting judgments take into consideration the business and economic uncertainties related to the COVID-19 pandemic and the future response of governments, the Company and others to those uncertainties. In the current environment, the inputs and assumptions and judgements are subject to greater variability than normal, which could in the future significantly affect judgments, estimates and assumptions made by management as they relate to potential impact of the COVID-19 pandemic on various financial accounts and note disclosures and could lead to a material adjustment to the carrying value of the assets or liabilities affected. The impact of current uncertainty on judgments, estimates and assumptions includes the Company's valuation of the long-term assets (including the assessment for impairment and impairment reversal). Actual results may differ materially from these estimates.

**2. BASIS OF PREPARATION**

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements were approved by the Company's Board of Directors on August 30, 2021.

(b) Principles of consolidation

These financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. These financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- TLI – Inactive
- Lind– Inactive
- Amalco – Inactive
- TLC – Active
- TL USA - Inactive

All intercompany transactions and balances have been eliminated on consolidation.

**TRUE LEAF BRANDS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the three months ended June 30, 2021**  
(Expressed in Canadian dollars)

**2. BASIS OF PREPARATION (Continued)**

(c) Basis of measurement

These financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value (Note 19) and fair value less cost to sell (Note 5). The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

(a) Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency of each of the entities in the group is the Canadian dollar. The functional currency determinations were conducted through an analysis of the factors identified in International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates.

The presentation currency of the Company is the Canadian dollar. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the reporting date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the consolidated statement of loss and comprehensive loss

(b) Financial instruments

Financial assets and liabilities are recognized when the Company or its subsidiaries become party to the contractual provisions of the instrument. On initial recognition, all financial assets and liabilities are recorded at fair value, net of transaction costs, except for financial assets and liabilities classified as at fair value through profit and loss ("FVTPL"). The directly attributable transaction costs related with financial assets and liabilities recorded at FVTPL are expensed in the period they are incurred.

Subsequent measurement of financial assets and liabilities depends on the classification of such assets and liabilities. The classification of financial assets is generally based on its contractual cash flow characteristics and the business model in which it is managed.

(i) Financial assets at amortized cost

Financial assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows, and the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest are classified and measured subsequently at amortized cost.

**TRUE LEAF BRANDS INC.**  
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(Expressed in Canadian dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Financial instruments (Continued)

(ii) Financial assets at fair value through other comprehensive income (FVTOCI)

Financial assets that are held within a business model whose objective is achieved by collecting the contractual cash flows and selling financial assets, and the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest are classified and measured at FVTOCI.

On initial recognition, the Company may make an irrevocable election (on an instrument by instrument basis) to designate investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation of FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at FVTOCI and the cumulative gain or loss is not reclassified to profit or loss on disposal of the equity instrument, instead, it is transferred to deficit.

(iii) Financial assets at fair value through profit or loss

All other financial assets are measured at FVTPL. These assets are measured at fair value at the end of each reporting period, with any gain or loss recognized in earnings.

(iv) Impairment and Write-off

The Company recognizes a loss allowance for expected credit losses on its financial assets. The amount of the expected credit loss is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by the default date determined based on historical trend, the Company's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

**TRUE LEAF BRANDS INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the three months ended June 30, 2021**  
(Expressed in Canadian dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Financial instruments (Continued)

(v) Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after reducing all its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

(vi) Compound instruments

The component parts of convertible loan notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

(vi) Compound instruments (Continued)

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share capital. Where the conversion option remains unexercised at the maturity date of the convertible loan note, the balance recognised in equity will be transferred to deficit. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the lives of the convertible loan notes using the effective interest method.

(vii) Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Company, are measured in accordance with the specific accounting policies set out below.

**TRUE LEAF BRANDS INC.**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Financial instruments (Continued)

(viii) Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss.

(ix) Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as FVTPL, are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

(x) Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss.

(xi) Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**TRUE LEAF BRANDS INC.**  
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**For the three months ended June 30, 2021**  
(Expressed in Canadian dollars)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(b) Financial instruments (Continued)

(xii) Derivative financial instruments

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

(xiii) Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Derivatives embedded in hybrid contracts with hosts that are financial liabilities are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Company generally designates the whole hybrid contract at FVTPL. An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash and/or with original maturities of three months or less. The Company had a cash and cash equivalent balance at June 30, 2021 of \$193,584 (March 31, 2021: \$480,833).

(d) Biological Assets

The Company's biological assets, consisting of cannabis plants, are within the scope of IAS 41 Agriculture; the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, grow consumables, utilities, facilities costs, etc. The Company measures biological assets, at fair value less cost to sell up to the point of harvest. Unrealized gains or losses arising from the changes in fair value less cost to sell during the period are separately recorded in the consolidated statement of comprehensive loss for the related period.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(e) Inventories

The Company values inventories at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined using the weighted average cost basis.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining market prices. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is apparent evidence of an increase in selling price, then the amount of the write down previously recorded is reversed. Indirect administrative overhead, and certain other selling costs related to inventories are expensed in the period incurred.

(f) Assets held for sale and discontinued operations

(i) Assets held for sale:

The Company classifies assets, or disposal groups, as held for sale when it expects to recover their carrying amounts primarily through sale rather than through continuing use. To meet criteria to be held for sale, the sale must be highly probable, and the assets or disposal groups must be available for immediate sale in their present condition. The Company must be committed to a plan to sell the assets or disposal group, and the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Company measures assets or disposal groups at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to the remaining assets and liabilities on a pro-rata basis. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss; however, gains are not recognized in excess of any cumulative impairment loss. Upon classifying asset or disposal groups as held for sale, the Company presents the assets separately as a single amount and the associated liabilities separately as a single amount on the Consolidated Statement of Financial Position. Comparative period balances are not restated. Assets held for sale are not depreciated, depleted, or amortized.

(ii) Discontinued operations:

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or classified as held for sale. The operations and cash flows can be clearly distinguished from the rest of the Company, both operationally and for financial reporting purposes. When the Company classifies an operation as a discontinued operation, it represents the comparative Consolidated Statements of Comprehensive Loss as if the operation had been discontinued from the start of the comparative year. In doing this, the Company excludes the results for the discontinued operations and any gain or loss from disposal from the consolidated statements of operations from continuing operations and presents them on a separate line as profit or loss (net of tax) from the discontinued operation. Per share information and changes to discontinued operations in other consolidated comprehensive loss related to discontinued operations are presented separately from continuing operations. Cash flows from discontinued operations are presented separately from cash flows from continuing operations in the Consolidated Statements of Cash Flows.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(g) Property, Plant and Equipment

Capital assets are carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the straight-line method at the following rates:

- Building – 10 to 40 years
- Leasehold improvements – 5 years
- Office furniture and equipment – 5 years

The Company's capital assets are reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated. Impairment losses are recognized in profit or loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) Intangible assets

The Company owns intangible assets consisting of various direct costs associated with the acquisition of trademarks and intellectual property, as well as website costs. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. The Company does not hold any intangible assets with indefinite lives.

Amortization is recognized using the straight-line method at the following rates:

- Trademarks and related costs – 5 to 10 years
- Website costs – 3 years
- Intellectual property – 5 years

(i) Impairment of non-financial assets

The Company's non-financial assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.



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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(j) Impairment of non-financial assets (Continued)

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(k) Provisions

Provisions are recorded when a present legal, statutory or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, if the effect is material, its carrying amount is the present value of those cash flows.

(l) Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares, warrants and stock options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The Company considers the fair value of common shares issued in the private placements to be the more easily measurable component and the common shares are valued at their estimated fair value. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

(m) Share-based payments

Options granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

On vesting, share-based payments are recorded as an operating expense and as reserves. When options are exercised the consideration received is recorded as share capital. In addition, the related share-based payments originally recorded as reserves are transferred to share capital.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares, calculated by dividing the profit or loss attributable to equity shareholders of the Company by the weighted average number of common shares issued and outstanding during the period. Diluted EPS is calculated by adjusting the profit or loss attributable to equity shareholders and the weighted average number of common shares outstanding for the effects of all potentially dilutive common shares. The calculation of diluted EPS assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. For the periods presented, the calculation proved to be anti-dilutive as the Company was in a loss position.

(o) Revenue recognition and related costs

Revenue is recognized at the transaction price, which is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. Revenue from the sale of goods, as presented in the consolidated statement of loss and comprehensive loss, represents revenue from the sale of goods less expected price discounts, and allowances for customer returns. The Company has concluded that revenue from the sale of these products should be recognized at the point in time when control is transferred to the customer. Indicators of a transfer of control include an unconditional obligation to pay, legal title, physical possession, transfer of risk and rewards and customer acceptance. This generally occurs when the goods are delivered to the customer.

(p) Cost of sales

Cost of sales includes inventory, product-related costs and costs to ship products to customers.

(q) Selling and marketing

Selling and marketing expenses include costs attributable to the sale of pet products and include salaries, fees and commissions for the related staff. Marketing expenses also include costs associated with the True Leaf corporate brand.

(r) Grants and subsidies

Government grants and subsidies are recognized as revenue on an accrual basis when it is reasonably assured that the funds will be received and have been earned to match them with the related costs, for which they are intended to compensate, on a systematic basis.

(s) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of loss and comprehensive loss. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous periods.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(t) Income taxes (Continued)

Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

(u) Segmented information

An operating segment is a component of the company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Operating segment results are reviewed regularly by the Company's President and Chief Executive Officer ("CEO") to make decisions about resources to be allocated to the segment and assess performance, for which discrete financial information is available.

**4. USE OF ESTIMATES AND JUDGMENTS**

The preparation of these consolidated financial statements requires management to make certain estimates, judgements 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.

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**4. USE OF ESTIMATES AND JUDGMENTS (Continued)**

(a) Estimates (Continued)

- 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.

- Going concern

In order to assess whether it is appropriate for the Company to be reported as a going concern, the Directors apply judgement, having undertaken appropriate enquiries and having considered the business activities and the Company's principal risks and uncertainties. In arriving at this judgement there are a large number of assumptions and estimates involved in calculating these future cash flow projections. This includes management's expectations of revenue, EBITDA, timing and quantum of future capital expenditure and estimates and cost of future funding.

**5. DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE & IMPAIRMENT**

On March 18, 2020, TLB entered into an agreement with FTI Consulting in anticipation of progressing to creditor protection under the BIA process.

On April 2, 2020, TLB and its Canadian 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 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.

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

On August 11, 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.

On September 11, 2020 the sale of TLP assets, including the shares of TLPE was completed and all held for sale assets were sold for \$300,000 less working capital adjustments of \$61,216. There were no liabilities directly associated with the assets held for sale as at March 31, 2020. A gain of \$351,426 was realized on the sale.

After the stay of proceeding expired October 2, 2020 for TLP it was considered bankrupt and a gain of \$2,419,787 was recognized in income upon the extinguishment of the debts of that company.

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.

For the three month ended June 30, 2020, income arising from discontinued operations include the operating income of TLP and TLPE as follows:

	TLP	TLPE	Total June 30, 2020
Sales	\$ 249,337	\$ 68,976	\$ 318,313
Cost of sales	73,588	52,368	125,956
Gross Profit	175,749	16,608	192,357
Operating Expenditures			
Administrative and office	559,717	23,031	582,748
Amortization and depreciation	-	-	-
Inventory write-down	-	-	-
Research and development	-	-	-
Selling and marketing	86,119	-	86,119
Total operating expenditures	645,836	23,031	668,867
Loss from discontinued operations	\$ (470,087)	\$ (6,423)	\$ (476,510)
Other income	55,712	-	55,712
Foreign exchange gain (loss)	(1,535)	(11,070)	(12,605)
Loss and comprehensive loss for the year	\$ (415,910)	\$ (17,493)	\$ (433,403)

There was no income from discontinued operations in the three months ended June 30, 2021 Selling and marketing expenses included in discontinued operations are as follows:

	Three months ending June 30, 2020
Advertising	\$ 5,831
Digital marketing	7,162
Sales administration costs	1,898
Travel and meals	101
Wages	71,127
<b>Total selling and marketing</b>	<b>\$ 86,119</b>

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

Administrative and office expenses included in discontinued operations are as follows:

	Three months ending June 30, 2020	
Accounting and legal	\$	1,101
Office and other		21,127
Rent		16,246
Travel and meals		346
Utilities		477
Consulting fees		20,489
Wages and salaries		522,962
<b>Total administrative and office</b>	<b>\$</b>	<b>582,748</b>

**6. TRADE AND OTHER RECEIVABLES**

	June 30, 2021		March 31, 2021	
Miscellaneous receivables	\$	19,583	\$	7,934
Goods and services tax receivable		55,351		167,721
	<b>\$</b>	<b>74,934</b>	<b>\$</b>	<b>175,655</b>

(a) Trade receivables

There were not trade receivables as at June 30, 2021 or March 31, 2021

(b) Miscellaneous receivables

At June 30, 2021 miscellaneous receivables included \$12,083 in eligible wage subsidies under the Canadian Emergency Wage Subsidy program (March 31, 2021 - \$7,934) and \$7,500 in rent receivable (March 31, 2021 - \$nil).

(c) Goods and services tax receivable

Goods and services tax receivable of \$55,351 was collected subsequent to June 30, 2021

**7. INVENTORY**

The Company measures biological assets consisting of cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The changes in the carrying value of biological assets for the periods ended June 30, 2021 and March 31, 2021 are as follows:

	June 30, 2021		March 31, 2021	
Carrying amount, opening	\$	-	\$	-
Production costs		4,640		-
Changes in fair value less costs to sell due to biological transformation		5,624		-
Transferred to inventory upon harvest		-		-
	<b>\$</b>	<b>10,264</b>	<b>\$</b>	<b>-</b>

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**7. INVENTORY (Continued)**

The significant assumptions used to determine the fair value of the cannabis include:

- Expected yield by strain of plant
- Wastage of plants
- Duration of the production cycle
- Percentage of costs incurred to date compared to the total expected costs per crop
- Market value, less selling costs

**8. PREPAID EXPENSES AND DEPOSITS**

	June 30, 2021	March 31, 2021
Insurance premiums	\$ 12,704	\$ 9,433
Other	265,523	284,843
<b>Total prepaid expenses</b>	<b>\$ 278,227</b>	<b>\$ 294,276</b>
Construction deposits	102,177	100,077
<b>Total deposits</b>	<b>102,177</b>	<b>100,077</b>
<b>Total prepaid expenses &amp; deposits</b>	<b>\$ 380,404</b>	<b>\$ 394,353</b>

As at June 30, 2021, prepaid expenses include a deposit of \$102,177 (March 31, 202 - \$100,077) paid in connection with construction of the Company's cannabis production facility in Lumby (Note 9). The deposits are refundable subject to approval by the Village of Lumby that the Company has complied with conditions set out in its various permits.

Other prepaid deposits include the following:

	June 30, 2021	March 31, 2021
Prepaid legal & trustee fees	\$ 14,867	\$ 51,988
Subscriptions & licenses	13,916	-
Excise Tax Deposit	5,000	-
Clone Prepayment	20,000	21,115
Renovation deposit (note 9)	211,740	211,740
<b>Total Other</b>	<b>\$ 265,523</b>	<b>\$ 284,843</b>

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**9. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost:</b>	<b>Land</b>	<b>Buildings</b>	<b>Leasehold Improvement</b>	<b>Office furniture</b>	<b>Equipment</b>	<b>Total</b>
Balance, March 31, 2020	\$ 801,192	\$ 3,627,169	\$ 95,676	\$ 3,246	\$ 63,675	\$ 4,590,958
Additions	-	118,261	-	-	4,856	123,117
Balance, March 31, 2021	801,192	3,745,430	95,676	3,246	68,531	4,714,075
Additions	-	235,430	-	2,649	15,868	253,947
<b>Balance June 30, 2021</b>	<b>\$ 801,192</b>	<b>\$ 3,980,860</b>	<b>\$ 95,676</b>	<b>\$ 5,895</b>	<b>\$ 84,399</b>	<b>\$ 4,968,022</b>
<b>Accumulated depreciation:</b>						
Balance, March 31, 2020	\$ -	\$ 45,339	\$ 58,912	\$ 1,090	\$ 3,145	\$ 108,486
Depreciation for the year	-	90,680	19,135	649	6,472	116,936
Balance, March 31, 2021	-	136,019	78,047	1,739	9,617	225,422
Depreciation for the period	-	22,670	4,784	242	2,156	29,852
Balance June 30, 2021	\$ -	\$ 158,689	\$ 82,831	\$ 1,981	\$ 11,773	\$ 255,274
<b>Carrying value:</b>						
As at March 31, 2021	\$ 801,192	\$ 3,609,411	\$ 17,629	\$ 1,507	\$ 58,914	\$ 4,488,653
<b>As at June 30, 2021</b>	<b>\$ 801,192</b>	<b>\$ 3,822,171</b>	<b>\$ 12,845</b>	<b>\$ 3,914</b>	<b>\$ 72,626</b>	<b>\$ 4,712,748</b>

The Company acquired a 40 acre property located in Lumby, B.C to build its cannabis cultivation facility, and construction of the Company's building was completed in March 2019, with total construction costs being capitalized until the building was 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. Construction deposits remain with the Village of Lumby for final landscaping and road frontage improvements and a permit for the removal of an old structure on the site.

In January 2021 the Company engaged a contractor to complete renovations to the upper floor of the building including 4 micro grow rooms, a mother plant and clone room. Deposits of \$211,740 related to this construction are accounted for in prepaid expenses (Note 8).



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**10. INTANGIBLE ASSETS**

<b>Cost:</b>	<b>Website</b>		<b>Trademarks and related costs</b>		<b>Total</b>
Balance, March 31, 2020	\$	17,813	\$	46,354	\$ 64,167
Additions		9,649		-	9,649
Balance, March 31, 2021		27,462		46,354	73,816
Additions		-		1,686	1,686
<b>Balance June 30, 2021</b>	<b>\$</b>	<b>27,462</b>	<b>\$</b>	<b>48,040</b>	<b>\$ 75,502</b>
<b>Accumulated amortization:</b>					
Balance, March 31, 2020	\$	10,801	\$	-	\$ 10,801
Amortization for the year		1,446		-	1,446
Balance, March 31, 2021		12,247		-	12,247
Amortization for the period		452		2,402	2,854
<b>Balance June 30, 2021</b>	<b>\$</b>	<b>12,699</b>	<b>\$</b>	<b>2,402</b>	<b>\$ 15,101</b>
<b>Carrying value:</b>					
As at March 31, 2021	\$	15,215	\$	48,040	\$ 63,255
<b>As at June 30, 2021</b>	<b>\$</b>	<b>14,763</b>	<b>\$</b>	<b>45,638</b>	<b>\$ 60,401</b>

**11. MORTGAGES PAYABLE**

The Company entered into two debt agreements as part of the restructuring that completed the BIA Process to settle its convertible notes and other debts. Following creditor approval and Court approval in early November 2020 of the BIA Proposals filed by TLC and TLI, the transactions contemplated by the Refinancing Agreement were completed on November 16, 2020. The proposals are sponsored by two financing groups, Canguard Mortgage Investment Corporation (“Canguard”) and 1263815 BC Ltd. (“Second Mortgage Co.”).

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 for a term of one year payable December 12, 2021 bearing interest of 10%. Interest only payment are due on the first day of each month.
- Second Mortgage Co. 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 for a term of one year payable December 12, 2021 bearing interest of 12%. Interest only payment are due on the first day of each month.

On December 12, 2020 the Refinancing Agreement was executed and the Lind debt was settled using 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, to pay down the Lind Debt and was released of the balance of any obligation under the Convertible Note agreement. The remaining funds from the new mortgages were used to pay obligations to unsecured creditors and transaction costs. For the three months ended June 30, 2021 the Company incurred \$50,311 in interest expense related to these mortgages (June 30, 2020 - \$nil).

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**12. RELATED PARTY BALANCES AND TRANSACTIONS**

a) Goods and services

The Company had the following transactions with related parties during the three months ended June 30, 2021 and 2020:

	Three months ended June 30,	
	2021	2020
Paid or payable to the Chief Executive Officer for office space rental	\$ 6,762	\$ 7,500
Paid or payable to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	\$ -	\$ 36,656

b) Compensation of key management personnel

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

	Three months ended June 30,	
	2021	2020
Director compensation (non-Executive):		
Share-based compensation	\$ 26,594	\$ -
	\$ 26,594	\$ -
Management compensation:		
Salaries and management fees	\$ 66,770	\$ 140,604
Share-based compensation	106,378	48,456
	\$ 173,148	\$ 189,060
	\$ 199,742	\$ 189,060

**13. SHARE CAPITAL**

a) Authorized

Unlimited Common voting shares with no par value

b) Issued

The Company had the no share capital transactions during the three months ended June 30, 2021 and June 30, 2020.

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**13. SHARE CAPITAL (Continued)**

c) Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price \$
<b>Balance, March 31, 2020</b>	<b>960,238</b>	<b>4.40</b>
Warrants expired	(95,238)	9.45
<b>Balance, March 31, 2021</b>	<b>865,000</b>	<b>3.84</b>
<b>Balance, June 30, 2021</b>	<b>865,000</b>	<b>3.84</b>

As at June 30, 2021, the following share purchase warrants are outstanding:

Number of Warrants	\$	Expiry Date
625,000	4.59	February 21, 2022
240,000	1.89	October 7, 2022
<b>865,000</b>		

d) Stock options

The Company has a Stock Option Plan (the “Plan”) in place under which it is authorized to grant options to directors, executive officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company in any twelve-month period. Under the Plan, the exercise price of each stock option is subject to a minimum exercise price of \$0.10 and may not be less than the closing market price of Company’s common shares on the trading day immediately preceding the date of grant of the options. The options can be granted for a maximum term of five years and vest at the discretion of the Board of Directors.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price (\$)
<b>Balance, March 31, 2020</b>	<b>592,778</b>	<b>5.13</b>
Stock options cancelled	(403,334)	(4.80)
Stock options granted	600,000	0.54
<b>Balance, March 31, 2021</b>	<b>789,444</b>	<b>1.80</b>
Stock options granted	875,000	0.38
<b>Balance, June 30, 2021</b>	<b>1,664,444</b>	<b>1.06</b>

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**13. SHARE CAPITAL (Continued)**

d) Stock options (Continued)

As at June 30, 2021, the following stock options are outstanding and exercisable:

Number of Options		Exercise Price	Expiry Date
Outstanding	Exercisable	\$	
44,444	44,444	8.46	February 6, 2023
8,334	5,500	4.50	July 31, 2023
133,333	907,411	5.04	March 6, 2024
3,333	3,333	2.61	July 25, 2024
600,000	450,000	0.54	March 8, 2026
875,000	437,500	0.38	June 16, 2026
<b>1,664,444</b>	<b>1,848,188</b>		

During the three months ended June 30, 2021, the Company recorded share-based compensation of \$132,972 (2020: \$48,456) relating to the stock options. Share-based compensation is measured at fair value at the date of grant and are expensed over the vesting period. In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of stock options granted at grant date by applying the following assumptions for options granted during the three months ended June 30, 2021 and 2020:

	2021	2020
Exercise price	\$ 0.38	\$ n/a
Market price	\$ 0.37	\$ n/a
Risk-free interest rate	0.87%	n/a%
Expected life (years) of options	5	n/a
Volatility	112.78%	n/a%

**14. OTHER INCOME**

The Company earns rental revenue from tenants in month-to month tenancy agreements for buildings on the company property that are not utilized for operations. The Company also received the Canada Emergency Wage Subsidy and recognized these revenues as Other Income in the financial statements. Below are the details of all Other Revenue generated:

	Three months ended June 30,	
	2021	2020
Government Wage Subsidies	\$ 63,597	\$ 24,563
Rental Income	16,743	16,743
<b>Total</b>	<b>\$ 80,340</b>	<b>\$ 41,306</b>

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**15. ADMINISTRATIVE AND OFFICE EXPENSE**

	Three months ended June 30,	
	2021	2020
Accounting and legal	\$ 44,750	\$ 256,941
Filing fees	1,650	5,781
Insurance	14,513	78,287
Transaction costs & interest expense	50,311	245,306
Office and other	58,686	45,510
Property tax expense	41,295	52,050
Rent	6,762	-
Transfer agent	300	158
Travel and meals	633	-
Utilities	9,440	6,251
Consulting fees	57,127	136,145
Wages and salaries	145,801	297,203
<b>Total administrative and office expense</b>	<b>\$ 431,268</b>	<b>\$ 1,123,632</b>

**16. SELLING AND MARKETING EXPENSE**

	Three months ended June 30,	
	2021	2020
Advertising	\$ 28,330	\$ -
Investor Relations	56,293	8,412
Public Relations	15,500	9,540
<b>Total selling and marketing</b>	<b>\$ 100,123</b>	<b>\$ 17,952</b>

**17. FINANCIAL INSTRUMENTS AND RISK**

**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 mortgages 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.

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**17. FINANCIAL INSTRUMENTS AND RISK (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 June 30, 2021:

Credit risk

Credit risk refers to the risk that another entity will default on its contractual obligations which will result in a loss for the Company. At June 30, 2021, the Company's exposure to credit risk consists of the carrying value of cash and cash equivalents in US Dollars. The Company limits its credit exposure on cash by holding its deposits with established financial institutions.

Liquidity risk

Liquidity risk arises from our general and capital financing needs with respect to future growth. Liquidity risk could arise if the Company encounters difficulty in meeting future obligations with financial liabilities. As at June 30, 2021, the Company has cash and cash equivalents of \$193,584 (March 31, 2021 - \$480,833) to settle current liabilities of \$5,514,535 (March 31, 2021- \$5,206,423).

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 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 was 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. With the sale of TLP assets and shares of TLPE the company's currency risk is negligible.

At June 30, 2021, the Company had no hedging agreements in place with respect to foreign exchange rates. Certain operational costs are denominated in U.S. dollars and funded directly from the Company's U.S. funds. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates. In seeking to minimize the risk from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. As at June 30, 2021, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

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**18. CAPITAL MANAGEMENT**

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 period ended June 30, 2021.

**19. COMMITMENTS**

The Company had no commitments as at June 30, 2021.

**20. SEGMENTED INFORMATION**

The Company has one reportable segment for continued operations in Canada. Discontinued operations included segments in North America and Europe for TLP and TLPE, respectively. Refer to Note 5, discontinued operations, for a breakdown of the assets, revenues and expenses for those operations.

**21. SUBSEQUENT EVENTS**

- a) On July 7, 2021 the Company completed its first harvest of cannabis plants.
- b) On July 27, 2021 TLB issued 91,346 common shares at \$0.26 to consultants in exchange for work in operations.
- c) On August 12, 2021 the Company completed its first packaging run and submitted its two batch amendment to its sales license.