

**True Leaf Brands Inc.**  
**Consolidated Financial Statements**  
**For the Year ended March 31, 2021 and 2020**  
(Expressed in Canadian dollars)

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
True Leaf Brands Inc.

### *Opinion*

We have audited the accompanying consolidated financial statements of True Leaf Brands Inc. (the "Company"), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that during the year ended March 31, 2021, the Company incurred a loss of \$6,223,339 and has an accumulated deficit of \$36,890,200. On April 2, 2020, the Company sought creditor protection through the Bankruptcy and Insolvency Act of Canada. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

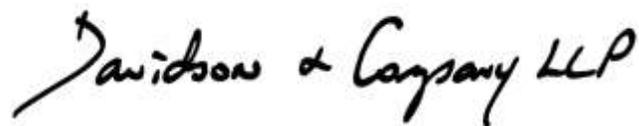
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Glenn Parchomchuk.

A handwritten signature in black ink that reads "Davidson & Coysany LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

August 27, 2021

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

	Notes	March 31, 2021	March 31, 2020
<b>Assets</b>			
Current			
Cash and cash equivalents		\$ 480,833	\$ 302,225
Short-term investments	9	-	51,750
Trade and other receivables	6	175,655	400,808
Inventories	7	-	89,415
Prepaid expenses and deposits	8	394,353	318,797
Assets held for sale	5	-	53,615
		1,050,841	1,216,610
Property, plant and equipment	5, 10	4,488,653	4,482,436
Intangible assets	5, 11	63,255	55,053
<b>Total assets</b>		<b>\$ 5,602,749</b>	<b>\$ 5,754,099</b>
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		\$ 506,423	\$ 1,973,177
Mortgages payable	12	4,700,000	-
Convertible notes payable	13	-	5,859,467
<b>Total liabilities</b>		<b>5,206,423</b>	<b>7,832,644</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	15	32,083,412	23,962,363
Reserves		5,203,114	4,625,953
Deficit		(36,890,200)	(30,666,861)
<b>Total shareholders' equity (deficiency)</b>		<b>396,326</b>	<b>(2,078,545)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>		<b>\$ 5,602,749</b>	<b>\$ 5,754,099</b>

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

**Subsequent events (Note 24)**

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

Approved on behalf of the Board of Directors on August 27, 2021

*"Darcy Bomford"*

Director

*"Michael Harcourt"*

Director

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

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

	Notes	For the Year Ended March 31,	
		2021	2020
<hr/>			
Operating Expenditures			
Accretion expense	13	\$ -	\$ 1,854,522
Administrative and office	17	3,235,912	3,058,673
Amortization and depreciation	10, 11	118,382	101,510
Selling and marketing	18	87,714	567,216
Share-based compensation	15	577,161	1,022,998
<b>Total operating expenditures</b>		<b>4,019,169</b>	<b>6,604,919</b>
<b>Loss from operations</b>		<b>4,019,169</b>	<b>6,604,919</b>
Other income	16	282,639	70,896
Asset impairment	5	-	(6,583,154)
Loss on debt modification	12,13	(4,617,486)	-
Gain on forgiveness of debt through BIA process	5	866,739	-
Foreign exchange gain (loss)		24,005	(17,633)
<b>Net loss from continued operations</b>		<b>(7,463,272)</b>	<b>(13,134,810)</b>
Loss from discontinued operations	5	(1,179,854)	(2,501,292)
Asset impairment from discontinued operations	5	-	(559,739)
Gain on disposal of discontinued operations	5	2,419,787	-
<b>Income (loss) from discontinued operations</b>		<b>1,239,933</b>	<b>(3,061,031)</b>
<b>Loss for the year</b>		<b>\$ (6,223,339)</b>	<b>\$ (16,195,841)</b>
Weighted average number of common shares outstanding – basic and diluted *		17,053,455	11,357,931
Earnings (loss) per common share, discontinued operations - basic and diluted		\$0.07	(\$0.27)
Earnings (loss) per common share, continued operations – basic and diluted		(\$0.44)	(\$1.16)

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

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

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

	<u>Number of Shares</u>	<u>Share Capital</u>	<u>Reserves</u>	<u>Deficit</u>	<u>Total Shareholders' Equity (Deficiency)</u>
<b>Balance, March 31, 2019</b>	10,883,836	\$ 22,689,173	\$ 3,660,877	\$ (14,471,020)	\$ 11,879,030
Shares issued on exercise of stock options	77,778	444,500	(168,000)	-	276,500
Shares issued on exercise of warrants	167,509	521,190	-	-	521,190
Shares issued to executive	101,852	152,500	-	-	152,500
Share-based compensation	-	-	870,498	-	870,498
Shares issued upon conversion of convertible note	92,593	100,000	-	-	100,000
Shares issued to settle debt	50,926	55,000	-	-	55,000
Fair value of warrants issued and equity component of convertible debt	-	-	262,578	-	262,578
Loss for the year	-	-	-	(16,195,841)	(16,195,841)
<b>Balance, March 31, 2020</b>	<b>11,374,494</b>	<b>\$ 23,962,363</b>	<b>\$ 4,625,953</b>	<b>\$ (30,666,861)</b>	<b>\$ (2,078,545)</b>
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
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>

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

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

	Notes	Years ended March 31,	
		2021	2020
<b>Operating activities</b>			
Loss for the period from continuing operations		\$ (7,463,272)	\$ (13,134,810)
Items not affecting cash:			
Accretion expense	13	-	1,854,522
Non cash interest expense	12,13	885,973	19,467
Amortization and depreciation	9,10	118,346	101,510
Asset impairment and disposal	5	-	6,583,154
Loss on debt modification	12,13	(4,617,486)	-
Loss on disposal		-	(881)
Gain on debt forgiveness	13	866,739	-
Transaction cost of loan extension		-	540,000
Share-based compensation	14,15	577,161	1,022,998
Changes in non-cash working capital items:			
Prepaid expenses and deposits	8	(78,504)	69,327
Accounts payable and accrued liabilities		(1,466,753)	380,620
Due to related parties		3,480,625	(1,342,420)
Inventories	7	(30,159)	-
Trade and other receivables		(25,331)	255,698
<b>Net cash used in operating activities</b>		<b>(7,752,661)</b>	<b>(3,650,815)</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	10	(123,117)	(873,563)
Intangible asset costs	11	(9,649)	(44,681)
Sale of short-term investments		51,750	-
<b>Net cash used in investing activities</b>		<b>(81,016)</b>	<b>(918,244)</b>
<b>Financing activities</b>			
Proceeds from exercise of options	15	-	276,500
Proceeds from share issue	15	8,121,049	-
Proceeds from loans	12	4,700,000	-
Proceeds from exercise of warrants	15	-	521,190
Settlement of debt	13	(4,721,784)	-
Restricted cash classified as non-current asset		-	255,750
<b>Net cash provided by financing activities</b>		<b>8,099,265</b>	<b>1,053,440</b>
Change in cash and cash equivalents - continued operations		265,588	(3,515,619)
Change in cash - discontinued operations	5	(86,980)	(573,228)
Cash and cash equivalents, beginning of the year (including discontinued operations)		302,225	4,391,072
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 480,833</b>	<b>\$ 302,225</b>

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

**TRUE LEAF BRANDS INC.**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended March 31, 2021**  
(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 1055 West Hastings Street, Suite 1700, Vancouver BC, V6E 2E9.

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 year ended March 31, 2021, the Company incurred a loss of \$6,223,339 and has a deficit of \$36,890,200. The Company earned revenues of \$1,044,559 (2020 - \$2,286,947) from TLP and TLPE, however, these two subsidiaries had not yet achieved 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). 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 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").

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.

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

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

***Going Concern (Continued)***

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.
- 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.

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

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

***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.

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.

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

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

*Corona Virus (COVID-19)*

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 COVID19 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 27, 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
- 1279166 BC Ltd. – Inactive
- TLC – Active
- TL USA - Inactive

All intercompany transactions and balances have been eliminated on consolidation.

(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.

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

**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.

(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.

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

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

(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.

(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.

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

b) Financial instruments (Continued)

(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.

(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.

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

b) Financial instruments (Continued)

(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.

(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 has a cash and cash equivalent balance at March 31, 2021 of \$480,833 (2020: \$302,225) and Nil of short-term investments (2020: \$51,750). Investments with maturities of one-year or less, but greater than 90 days, are classified as short-term investments. These investments are redeemable at any-time without penalty.

(d) Inventories

Inventories included finished goods and supplies in respect of hemp-based nutrition for pets. The classification of inventories is determined by the stage in the manufacturing process. Finished goods inventories are valued based on the lower of actual production costs incurred or estimated net realizable value. Production costs include all direct manufacturing costs, freight, labour and other costs to deliver inventory to distribution locations. Cost is determined using the weighted average cost basis. Supplies are valued at the lower of average cost or net realizable value. If the carrying value exceeds the net realizable amount, a write-down is recognized. The write-down may be reversed in a subsequent period if the circumstances that caused it no longer exist.

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

(e) 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 the 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 Statements 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 operations. 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.

(f) 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.

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

(g) 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

(h) 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.

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.

(i) 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.

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

(j) 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.

(k) 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.

(l) 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.

(m) 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 statements 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.

**TRUE LEAF BRANDS INC.**  
**Notes to Consolidated Financial Statements**  
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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Cost of sales

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

(o) 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.

(p) 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.

(q) Income taxes

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the consolidated statements 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.

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 is 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.

(r) 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.

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

(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 statements of loss and comprehensive loss.

- Valuation of convertible note

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

(b) Critical judgements

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include, but are not limited to, the following:

- Functional currency

The functional currency of each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Determination of the functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

- 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.

**TRUE LEAF BRANDS INC.**  
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**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.

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. This triggered an impairment test as of March 31, 2020 of the assets of TLP with valuations based on the net consideration ultimately received.

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 is a continuity of asset values taking into account their related impairments at March 31, 2020:

	Carrying Value	Impairment Continued Operations	Impairment Discontinued Operations	Value after impairment	Continued Operations	Held for Sale
Inventory	\$ 513,006	\$ -	\$ 393,432	\$ 119,574	\$ 89,413	\$ 30,159
Prepaid expenses	321,745	-	-	321,745	318,787	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	58,474	131,815	99,413	99,413	-
Intangible assets	153,638	43,585	34,492	75,561	55,053	20,508
	<b>\$ 12,142,209</b>	<b>\$ 6,583,154</b>	<b>\$ 559,739</b>	<b>\$ 4,999,316</b>	<b>\$ 4,945,688</b>	<b>\$ 53,615</b>

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. After the stay of proceeding expired October 2, 2020 for TLP it was considered bankrupt and a gain on disposal of \$2,419,787 was recognized in income.

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

The total breakdown of cash flows from discontinued operations are as follows:

	<b>2021</b>	<b>2020</b>
Net cash used in operating activities	\$ (86,980)	\$ (541,167)
Net cash used in investing activities	-	(32,061)
Change in cash during the year	\$ (86,980)	\$ (573,228)

For the years ended March 31, 2021 and 2020, income arising from discontinued operations include the operating income of TLP and TLPE is as follows:

	<b>TLP</b>		<b>TLPE</b>		<b>Total March 31,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Sales	\$ 337,195	\$ 707,364	\$ 1,044,559	\$ 2,286,947		
Cost of sales	92,530	487,613	580,143	1,260,873		
Gross Profit	244,665	219,751	464,416	1,026,074		
Operating Expenditures						
Administrative and office	674,461	572,659	1,247,120	1,889,672		
Amortization and depreciation	-	-	-	100,073		
Inventory write-down	-	8,230	8,230	371,983		
Research and development	-	-	-	24,971		
Selling and marketing	154,287	234,633	388,920	1,140,667		
Total operating expenditures	828,748	815,522	1,644,270	3,527,366		
Loss from discontinued operations	(584,083)	(595,771)	(1,179,854)	(2,501,292)		
Asset Impairment	-	-	-	(559,739)		
Loss for the year	\$ (584,083)	\$ (595,771)	\$ (1,179,854)	\$ (3,061,031)		

Selling and marketing expenses included in discontinued operations are as follows:

	<b>Year ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Advertising	\$ 186,162	\$ 328,266
Branding	-	38,713
Digital marketing	12,766	24,055
Trade shows	6,840	131,458
Sales administration costs	11,022	55,158
Travel and meals	41,067	143,781
Wages	131,063	419,236
<b>Total selling and marketing</b>	<b>\$ 388,920</b>	<b>\$ 1,140,667</b>

**TRUE LEAF BRANDS INC.**  
**Notes to Consolidated Financial Statements**  
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**5. DISCONTINUED OPERATIONS, ASSETS HELD FOR SALE & IMPAIRMENT  
(Continued)**

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

	Year ended March 31,	
	2021	2020
Accounting and legal	\$ 1,949	\$ 644
Insurance	25,856	10,345
Office and other	89,887	204,104
Rent	48,914	94,054
Travel and meals	381	214,261
Utilities	1,070	4,347
Consulting fees	353,001	420,325
Wages and salaries	726,062	941,592
<b>Total administrative and office expense</b>	<b>\$ 1,247,120</b>	<b>\$ 1,889,672</b>

On October 1, 2020 TLB filed its proposal to exit the BIA Process which was subsequently approved by creditors on October 20, 2020 and approved by the courts in an order dated December 2, 2020 for a distribution of \$85,000 to the unsecured creditors of the company. The resulting gain on the settlement of debt of \$866,739 was recognized in income for the year.

**6. TRADE AND OTHER RECEIVABLES**

	March 31, 2021	March 31, 2020
Trade receivables (a)	\$ -	\$ 186,994
Miscellaneous receivables (b)	7,934	68,312
Goods and services tax receivable	167,721	145,502
	<b>\$ 175,655</b>	<b>\$ 400,808</b>

(a) Trade receivables

Trade receivables are non-interest bearing and are due within 30 days. As at March 31, 2021, the Company had \$Nil in trade receivables that were over 90 days (March 31, 2020 - \$11,543).

(b) Miscellaneous receivables

At March 31, 2021 miscellaneous receivables included \$7,934 in eligible wage subsidies under the Canadian Emergency Wage Subsidy program. At March 31, 2020, a director was indebted to the Company in the amount of \$4,822 for withholding taxes remitted on their behalf in connection with common shares issued as an employment benefit and director fees paid. The balance was non-interest bearing.

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**7. INVENTORY**

The cost of inventories recognized as an expense in the year ended March 31, 2021, was \$69,355 and is included in cost of sales of discontinued operations (2020: \$888,890). The remaining finished goods inventory was sold as part of the asset sale of TLP.

	March 31, 2021	March 31, 2020
Finished goods	\$ -	\$ 89,415
Supplies held for sale	-	30,159
<b>Total inventory</b>	<b>\$ -</b>	<b>\$ 119,574</b>

**8. PREPAID EXPENSES AND DEPOSITS**

	March 31, 2021	March 31, 2020
Insurance premiums	\$ 9,433	\$ 208,840
Interest	-	-
Other	284,843	9,880
<b>Total prepaid expenses</b>	<b>\$ 294,276</b>	<b>\$ 218,720</b>
Construction deposits	100,077	100,077
<b>Total deposits</b>	<b>100,077</b>	<b>100,077</b>
<b>Total prepaid expenses &amp; deposits</b>	<b>\$ 394,353</b>	<b>\$ 318,797</b>

As at March 31, 2021, prepaid expenses include a deposit of \$100,077 (March 31, 2020 - \$100,077) paid in connection with construction of the Company's cannabis production facility in Lumby (Note 10). The deposit is refundable subject to approval by the Village of Lumby that the Company has complied with conditions set out in its various permits. Other prepaid deposits include the following:

	March 31, 2021	March 31, 2020
Prepaid legal & trustee fees	\$ 51,988	\$ -
Subscriptions & licenses	-	9,880
Clone Prepayment	21,115	-
Renovation deposit	211,740	-
<b>Total Other</b>	<b>\$ 284,843</b>	<b>\$ 9,880</b>

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**9. SHORT TERM INVESTMENT**

The Company entered into a Guaranteed Investment Certificate (“GIC”) on November 7, 2018 for \$57,500 with a variable rate of Prime less 2.7% and term of 12 months, as security against credit cards issued to the employees of True Leaf Pet Inc. for on-going operating expenses. The GIC was reissued in the same amount on November 12, 2019 after maturing on November 6, 2019. An early partial retirement of \$5,750 was made on December 23, 2019. On September 17, 2020 after the sale of TLP’s assets closed the GIC was fully redeemed.

**10. 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, 2019	\$ 3,380,387	\$ 7,506,169	\$ 79,929	\$ 20,165	\$ 195,884	\$ 11,182,534
Additions	-	78,341	15,747	6,276	105,232	205,596
Disposals	-	(6,050)	-	-	(1,752)	(7,802)
Impairment	(2,579,195)	(3,951,291)	-	(23,195)	(235,689)	(6,789,370)
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
<b>Balance March 31, 2021</b>	<b>\$ 801,192</b>	<b>\$ 3,745,430</b>	<b>\$ 95,676</b>	<b>\$ 3,246</b>	<b>\$ 68,531</b>	<b>\$ 4,714,075</b>
<b>Accumulated depreciation:</b>						
Balance, March 31, 2019	\$ -	\$ -	\$ 41,073	\$ 10,216	\$ 19,964	\$ 71,253
Depreciation for the year	-	94,730	17,839	6,141	37,120	155,830
Disposals	-	-	-	-	(575)	(575)
Impairment	-	(49,391)	-	(15,267)	(53,328)	(117,986)
Balance, March 31, 2020	-	45,339	58,912	1,090	3,181	108,522
Depreciation for the year	-	90,680	19,135	649	6,436	116,900
Balance March 31, 2021	\$ -	\$ 136,019	\$ 78,047	\$ 1,739	\$ 9,617	\$ 225,422
<b>Carrying value:</b>						
As at March 31,2020	\$ 801,192	\$ 3,581,830	\$ 36,764	\$ 2,156	\$ 60,494	\$ 4,482,436
<b>As at March 31, 2021</b>	<b>\$ 801,192</b>	<b>\$ 3,609,411</b>	<b>\$ 17,629</b>	<b>\$ 1,507</b>	<b>\$ 58,914</b>	<b>\$ 4,488,653</b>

On April 2, 2020, the Company entered creditor protection under the BIA process 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 \$61,216 for a net value of \$238,784.

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**11. INTANGIBLE ASSETS**

<b>Cost:</b>	<b>Website</b>	<b>Trademarks and related costs</b>	<b>Intellectual property</b>	<b>Total</b>
Balance, March 31, 2019	\$ 10,801	\$ 200,508	\$ 55,500	\$ 266,809
Additions	7,012	36,871	-	43,883
Impairment	-	(136,749)	(55,500)	(192,249)
Classified as held for sale	-	(54,276)	-	(54,276)
Balance, March 31, 2020	17,813	46,354	-	64,167
Additions	9,649	-	-	9,649
<b>Balance March 31, 2021</b>	<b>\$ 27,462</b>	<b>\$ 46,354</b>	<b>\$ -</b>	<b>\$ 73,816</b>
<b>Accumulated amortization:</b>				
Balance, March 31, 2019	\$ 10,801	\$ 64,425	\$ 36,075	\$ 111,301
Amortization for the year	-	34,167	11,586	45,753
Classified as held for sale	-	(33,768)	-	(33,768)
Impairment	-	(64,824)	(47,661)	(112,485)
Balance, March 31, 2020	10,801	-	-	9,114
Amortization for the year	1,446	-	-	1,446
<b>Balance March 31, 2021</b>	<b>\$ 12,247</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 10,560</b>
<b>Carrying value:</b>				
As at March 31, 2020	\$ 7,012	\$ 46,354	\$ -	\$ 55,053
<b>As at March 31, 2021</b>	<b>\$ 15,215</b>	<b>\$ 46,354</b>	<b>\$ -</b>	<b>\$ 63,256</b>

In the prior fiscal year the BIA process and sales process within that of TLP and TLC's assets triggered impairment of the Company's intangible assets under IFRS 5.

**12. 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.

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**12. MORTGAGES PAYABLE (Continued)**

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 year ended March 31, 2021 the Company incurred \$240,000 in interest expense related to these mortgages.

**13. CONVERTIBLE NOTES**

On February 21, 2019, the Company completed a private placement of secured convertible notes for gross proceeds of \$4,500,000. The maturity date of the debenture was February 21, 2021. Upon maturity, the Company was required to repay \$5,400,000, consisting of the principal amount of \$4,500,000 (the Principal) plus interest costs of \$900,000. The Company had the right to buy-back the convertible note at any time.

The investor also received 5,625,000 (post-consolidation 625,000) warrants as part of this convertible debenture, entitling the investor to purchase one common share at an exercise price, pre-consolidation, of \$0.5089 (post consolidation \$4.59) for a period of 36 months from the issue date. The warrants are subject to acceleration where 50% of the total warrants outstanding, or 2,812,500 warrants, may be accelerated at the option of the Company if the volume weighted average price ("VWAP") of the Company's common shares are at least \$1.0178 (post consolidation \$9.16) for 30 consecutive trading days. The remaining warrants may be accelerated by the Company if the VWAP of the Company's common shares are at least \$1.5267 (post consolidation \$13.74) for 30 consecutive trading days.

The Company allocated the gross proceeds from the issuance between the estimated fair value of the debt and equity components using the residual value method. The Company used an effective annualized discount rate of 17.2%, which resulted in valuation of the debt component at \$4,303,813 and the equity component at \$196,187 before issue costs. The debt component was measured at amortized cost.

On October 7, 2019, the Company completed a waiver, amendment and funding agreement supplement (the "Waiver") for the Convertible Security Funding Agreement ("CSFA"), noted above. Pursuant to the terms of the CSFA the Company was required to repay the principal amount in 18 equal monthly installments (\$250,000) commencing August 21, 2019. The Waiver provided for (i) a 6 month deferral of these \$250,000 payments to the Investor to March 22, 2020; (ii) a fee of \$540,000 paid by the issuance of an additional convertible security with a face value of \$540,000 (the "Deferral Convertible Security") to the Investor; and (iii) the issuance of 2,160,000 warrants ("New Warrants") of the Company to the Investor. The Company allocated the gross value of the note between the estimated fair value of the debt and equity components using the residual method. The Company used an effective annualized discount rate of 17.9%, which resulted in valuation of the debt component at \$277,422 and the equity component at \$65,547.

The Deferral Convertible Security was convertible into common shares of the Company at a conversion price of \$0.21 (post consolidation \$1.89) per share. The Deferral Convertible Security was required to be repaid in 18 equal monthly installments (\$30,000) beginning on March 22, 2020, except that the repayment amount will be reduced in any month by any amount converted by the Investor into the Company's common shares. The New Warrants entitle the Investor to purchase one common share for each warrant, at an exercise price of \$0.21 (post consolidation \$1.89), for a period of 36 months from the date of issue.

On March 23, 2020, Lind Asset Management served the Company with a Default Notice demanding the payments due under the Funding Agreements. Both funding agreements stipulate that at the date of an Event of Default the interest payable on the Convertible Security will be at a rate of 15% per annum compounded monthly and all amounts become immediately due.

During the year ended March 31, 2021, the Company recorded accretion expense of \$Nil (2020: \$1,854,522) relating to this convertible debt and interest expense of \$615,958 (2020: \$19,467). Interest accretion was fully recognized when the company defaulted on the debt.

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**13. CONVERTIBLE NOTES (Continued)**

	As at March 31, 2021	As at March 31, 2020
Opening balance of convertible notes	\$ 5,859,467	\$ 3,808,056
Convertible note additions	-	540,000
Less: Conversion of loan to common shares	-	(100,000)
Less: Allocation to equity on convertible note issue	-	(65,547)
Less: Allocation to equity for fair value of warrants	-	(197,031)
Accretion expense	-	1,854,522
Interest expense on default	615,958	19,467
Settlement	(6,475,425)	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 5,859,467</b>

On December 9, 2020 in conjunction with the Share Capital Reorganization (Note 1) the Company recorded the following debt modification to retired debts to Lind:

Debt Modification:

Note 1 principle	\$ 5,300,000
Note 1 accumulated interest payable	583,000
Note 2 principle	540,000
Note 2 accumulated interest payable	52,425
Debtor in protection ("DIP") loan	700,000
DIP interest	30,015
	<b>\$ 7,205,440</b>
Proceeds - sale of TLI	(10,000)
Proceeds - sale of TLP	(238,784)
<b>Outstanding balance at modification date</b>	<b>\$ 6,956,656</b>
Replacement Debt:	4,700,000
Fees	420,774
Shares issued	6,453,368
<b>Loss on debt modification</b>	<b>\$ (4,617,486)</b>

**14. RELATED PARTY BALANCES AND TRANSACTIONS**

a) Goods and services

The Company had the following transactions with related parties during the year ended March 31, 2021 and 2020.

	Year ended March 31,	
	2021	2020
Paid or payable to the Chief Executive Officer for office space rental	\$ 20,300	\$ 49,825
Paid or payable to a company controlled by its Chief Executive Officer for costs associated with packaging inventory	\$ -	\$ 306,951

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**14. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)**

b) Compensation of key management personnel

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

	Year ended March 31,	
	2021	2020
Director compensation (non-Executive):		
Salaries and consulting fees	\$ -	\$ 45,229
Share-based compensation	42,539	14,358
	\$ 42,539	\$ 59,587
Management compensation:		
Salaries and management fees	\$ 230,167	\$ 671,592
Share-based compensation	85,077	353,348
	\$ 315,244	\$ 1,024,940
	\$ 357,783	\$ 1,084,527

- c) Amounts due to key management and a current director of \$Nil are included in accounts payable at March 31, 2021 (March 31, 2020: \$237,504) and are unsecured and non-interest bearing.

**15. SHARE CAPITAL**

a) Authorized

Unlimited Common voting shares with no par value

b) Issued

The Company had the following share capital transactions during the year ended March 31, 2021:

1. The Company completed a share consolidation on a basis of 9:1 on December 11, 2020.
2. The Company issued 17,416,980 post consolidation common shares in connection with the BIA process and for the acquisition of its previously owned subsidiary (Note 1) at a value of \$0.375 per share.
3. The Company issued 4,262,436 common shares at a price of \$0.36 per share for proceeds of \$1,534,479.
4. The company issued 222,222 common shares for debt at a deemed price of \$0.36 and recorded \$80,000 as an addition to share capital.
5. The Company issued 176,882 common shares to employees and contractors as bonus payments and recorded \$74,998 as a share-based compensation expense, with the same amount as an addition to share capital.
6. Stock based compensation of \$577,161 was recognized due to stock options granted and vested during the year.

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**15. SHARE CAPITAL (Continued)**

b) Issued (Continued)

The Company had the following share capital transactions during the year ended March 31, 2020:

1. The Company issued 167,509 common shares pursuant to the exercise of share purchase warrants for gross proceeds of \$521,190.
2. The Company issued 77,778 common shares pursuant to the exercise of share options for proceeds of \$276,500.
3. The Company issued 101,852 common shares to an executive as part of their employment contract and recorded \$152,500 as a share-based compensation expense, with the same amount as an addition to share capital.
4. The Company issued 92,593 shares upon conversion of the convertible note at \$1.08 per share for \$100,000 (Note 13) and 50,926 shares were issued at \$1.08 per share to settle debt of \$55,000.
5. Stock based compensation of \$870,498 was recognized due to stock options granted and vested during the year.

c) 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>1,199,340</b>	<b>4.59</b>
Warrants expired	(228,556)	3.60
Warrants exercised	(167,509)	3.24
Warrants cancelled	(83,037)	3.24
Warrants issued	240,000	1.89
<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>

As at March 31, 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>		

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**15. SHARE CAPITAL (Continued)**

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:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price \$</b>
<b>Balance, March 31, 2019</b>	<b>869,444</b>	<b>5.13</b>
Stock options granted	120,556	2.61
Stock options exercised	(77,778)	3.60
Stock options expired	(172,222)	3.60
Stock options cancelled	(147,222)	5.76
<b>Balance, March 31, 2020</b>	<b>592,778</b>	<b>5.12</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>

As at March 31, 2021, the following stock options are outstanding and exercisable:

<b>Number of Options</b>		<b>Exercise Price</b>		<b>Expiry Date</b>
<b>Outstanding</b>	<b>Exercisable</b>	<b>\$</b>		
44,444	44,444	8.46		February 6, 2023
8,334	5,500	4.50		July 31, 2023
133,333	90,741	5.04		March 6, 2024
3,333	3,333	2.61		July 25, 2024
600,000	450,000	0.54		March 8, 2026
<b>789,444</b>	<b>594,018</b>			

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**15. SHARE CAPITAL (Continued)**

d) Stock options (Continued)

During the year ended March 31, 2021, the Company recorded share-based compensation of \$577,161 (2020: \$1,022,998) 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 year ended March 31, 2021 and 2020:

	2021	2020
Exercise price	\$ 0.54	\$ 0.28
Market price	\$ 0.53	\$ 0.29
Risk-free interest rate	1.39%	1.39%
Expected life (years) of options	5	5
Volatility	114.01%	193.79%

**16. 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:

	Year ended March 31,	
	2021	2020
Government Wage Subsidies	\$ 215,666	\$ -
Rental Income	66,973	64,377
Proceeds on disposal of property, plant and equipment	-	881
Interest and miscellaneous income	-	5,638
<b>Total</b>	<b>\$ 282,639</b>	<b>\$ 70,896</b>

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**17. ADMINISTRATIVE AND OFFICE EXPENSE**

	Year ended March 31,	
	2021	2020
Accounting and legal	\$ 511,471	\$ 460,770
Director fees	-	45,229
Filing fees	37,600	40,470
Insurance	258,034	247,276
Transaction costs & interest expense	912,581	563,318
Office and other	194,989	172,505
Property tax expense	198,582	136,827
Rent	12,724	37,450
Transfer agent	6,523	25,109
Travel and meals	555	58,523
Utilities	34,487	35,317
Consulting fees	440,401	266,092
Wages and salaries	627,965	969,787
<b>Total administrative and office expense</b>	<b>\$ 3,235,912</b>	<b>\$ 3,058,673</b>

**18. SELLING AND MARKETING EXPENSE**

	Year ended March 31,	
	2021	2020
Advertising	\$ 8,975	\$ 16,050
Branding	480	159,994
Investor Relations	23,168	280,761
Public Relations	55,091	110,411
<b>Total selling and marketing</b>	<b>\$ 87,714</b>	<b>\$ 567,216</b>

**19. FINANCIAL INSTRUMENTS AND RISK**

**Fair Value**

Financial instruments recorded at fair value on the consolidated statements 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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**19. 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 March 31, 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 March 31, 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 March 31, 2021, the Company has cash and cash equivalents of \$480,833 (March 31, 2020 - \$302,225) to settle current liabilities of \$5,206,423 (March 31, 2020- \$7,832,644).

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 March 31, 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 March 31, 2021, the Company did not have any liabilities that bear interest at rates fluctuating with the prime rate.

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**20. CAPITAL MANAGEMENT**

Capital Management

The Company's capital includes share capital, cash, the mortgages, 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 year ended March 31, 2021.

**21. COMMITMENTS**

The Company had no commitments as at March 31, 2021.

**22. INCOME TAX**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

Loss for the year	\$	(6,223,339)	\$	(16,195,841)
Expected income tax (recovery)	\$	(1,835,000)	\$	(4,313,000)
Change in statutory, foreign tax, foreign exchange rates and other		(37,000)		54,000
Permanent differences		727,000		283,000
Share issue cost		(118,000)		
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses		624,000		5,000
Change in unrecognized deductible temporary differences		639,000		3,971,000
<b>Total income tax expense (recovery)</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>

The significant components of the Company's deferred tax assets and deferred tax liabilities are as follows:

	<b>2021</b>	<b>2020</b>
Deferred tax assets (liabilities)		
Property and equipment	\$ 1,180,000	\$ 1,162,000
Share issue costs	299,000	211,000
Debt with accretion	-	216,000
Non-capital losses available for future period	5,180,000	4,431,000
	\$ 6,659,000	\$ 6,020,000
Unrecognized deferred tax assets	(6,659,000)	(6,020,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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

**22. INCOME TAX (Continued)**

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2021	Expiry Date Range	2020	Expiry Date Range
<b>Temporary Differences</b>				
Property and equipment	\$ 4,473,000	No expiry date	\$ 4,305,000.00	No expiry date
Share issue costs	\$ 1,107,000	2042 to 2044	\$ 783,000.00	2041 to 2043
Debt with accretion	\$ -	No expiry date	\$ 800,000.00	No expiry date
Intangible assets	\$ -	No expiry date	\$ -	No expiry date
Non-capital losses available for future periods	\$ 20,008,000	2026 to 2040	\$ 16,986,000.00	2026 to 2040
Canada	\$ 18,161,000	2026 to 2040	\$ 15,686,000.00	2026 to 2040
Luxembourg	\$ 1,847,000	2034 to 2035	\$ 1,300,000.00	2034 to 2035

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**23. 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.

**24. SUBSEQUENT EVENTS**

On April 15, 2021 TLB announced the preliminary approval of a subdivision of its 40 acre parcel of land in Lumby, British Columbia.

On May 10, 2021 TLB launched both a traditional private placement and an equity crowdfunding offering to raise gross proceeds of up to \$10,000,000 CAD for sale of a maximum of 25,000,000 units, each unit consisting of one common share in the Company and one-half warrant at a price of \$0.40.

On June 16, 2021 TLB issued 875,000 options at a conversion price of \$0.38 to members of the executive and board of directors.

On July 27, 2021 TLB issued 91,346 common shares at \$0.26 to consultants in exchange for work in operations.