

## FORM 5

### **QUARTERLY LISTING STATEMENT**

Name of Listed Issuer: AgraFlora Organics International Inc. (the “Issuer”).

Trading Symbol: AGRA

This Quarterly Listing Statement must be posted on or before the day on which the Issuer’s unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer’s first, second and third fiscal quarters. This statement is not intended to replace the Issuer’s obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

#### **General Instructions**

- (a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.
- (b) The term “Issuer” includes the Listed Issuer and any of its subsidiaries.
- (c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

#### **SCHEDULE A: FINANCIAL STATEMENTS**

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

#### **SCHEDULE B: SUPPLEMENTARY INFORMATION**

The supplementary information set out below must be provided when not included in Schedule A.

## 1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

**See Note 17 to interim financial statements for nine months ended September 30, 2019.**

- (a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
- (b) A description of the transaction(s), including those for which no amount has been recorded.
- (c) The recorded amount of the transactions classified by financial statement category.
- (d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
- (e) Contractual obligations with Related Persons, separate from other contractual obligations.
- (f) Contingencies involving Related Persons, separate from other contingencies.

## 2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

- (a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
July 11/19	Common shares	Asset purchase agreement	348,109,251	\$0.40	N/A	Acquisition	Arm's length	N/A
July 11/19	Common shares	Finder's shares	13,054,097	\$0.40	N/A	Acquisition	Arm's length	N/A
Aug. 12/19	Common shares	Debt settlement	161,621	\$0.34	N/A	Cash	Arm's length	N/A
Aug. 12/19	Common shares	Debt settlement	157,930	\$0.36	N/A	Cash	Arm's length	N/A
Aug. 16/19	Common shares	Option exercise	2,080,645	\$0.093	\$193,500	Cash	Arm's length	N/A
Aug. 16/19	Common shares	Option exercise	2,500,000	\$0.142	\$355,000	Cash	Arm's length	N/A
Aug. 21/19	Common shares	Option exercise	919,355	\$0.093	\$85,500	Cash	Arm's length	N/A
Aug. 21/19	Common shares	Share purchase agreement	16,500,000	\$0.275	N/A	Acquisition	Arm's length	N/A
Aug. 30/19	Common shares	Option exercise	500,000	\$0.093	\$46,500	Cash	Arm's length	N/A
July 17/19	Warrants	Asset purchase agreement	65,613,675	\$0.65	N/A	Acquisition	Arm's length	N/A
July 17/19	Warrants	Asset purchase agreement	20,628,140	\$0.05	N/A	Acquisition	Arm's length	N/A
July 17/19	Warrants	Asset purchase agreement	43,685,818	\$0.08	N/A	Acquisition	Arm's length	N/A
Sept. 27/19	Special Warrants	Private Placement	6,666,667	\$0.30	\$2,000,000	Cash	Arm's length	N/A

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
<b>Total:</b>			<b>520,577,199</b>		<b>\$2,680,500</b>			

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
Aug. 1/19	2,000,000	1061437 BC Ltd. <sup>(1)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	150,000	Joseph Perino <sup>(2)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	400,000	Brian O'Neill <sup>(3)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	125,000	1065068 BC Ltd. <sup>(4)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	200,000	Christopher Hornung <sup>(5)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	150,000	Jerry Habuda <sup>(6)</sup>	-	\$0.31	Aug. 1/24	\$0.31
Aug. 1/19	26,975,000	N/A	Consultants	\$0.31	Aug. 1/24	\$0.31
<b>Total:</b>	<b>30,000,000</b>					

(1) 1061437 BC Ltd. is a company owned and operated by Brandon Boddy, Chairman, CEO and a director of the Issuer.

(2) Joseph Perino is a director of the Issuer.

(3) Brian O'Neill is a director of the Issuer.

(4) 1065068 BC Ltd. is a company owned and operated by Jan Urata, Corporate Secretary of the Issuer.

(5) Christopher Hornung is a director of the Issuer.

(6) Jerry Habuda is a director of the Issuer.

### 3. Summary of securities as at the end of the reporting period. See Schedule A

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

Description	Number Authorized	Par Value
Common shares	Unlimited	NPV

(b) number and recorded value for shares issued and outstanding,

Description	Number Issued & Outstanding	Amount
Common shares	873,905,880	\$174,165,360

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Description	Number Outstanding	Exercise Price	Expiry Date
Stock options	4,750,000	\$0.168	Mar. 29/20

Description	Number Outstanding	Exercise Price	Expiry Date
Stock options	500,000	\$0.128	Sept. 10/20
Stock options	1,250,000	\$0.142	Oct. 31/23
Stock options	20,400,000	\$0.55	Mar. 15/20
Stock options	6,000,000	\$0.46	May 21/24
Stock options	6,040,000	\$0.325	May 17/24
Stock options	3,000,000	\$0.39	May 30/24
Stock options	30,000,000	\$0.31	Aug. 1/19
Warrants	65,613,675	\$0.65	Dec. 5/20
Warrants	20,628,140	\$0.05	Jun. 16/21
Warrants	43,685,818	\$0.08	Aug. 23/21
Special Warrants	6,666,667	N/A	Jan. 28/20
<b>Total:</b>	<b>208,534,300</b>		

- (a) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Description	Number Held in Escrow	Number Released During the Period
Common shares	Nil	Nil

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name	Positions Held	Since
Brandon Boddy	Chairman and CEO Director	May 20, 2019 Apr. 23, 2019
Peter Nguyen	CFO	Jun. 27, 2019
Christopher Hornung	Director	Feb. 6, 2014
Jerry Habuda	Director	May 6, 2016
Joseph Perino	Director	Sept. 23, 2016
Brian O'Neill	Director	May 27, 2019
Jan Urata	Corporate Secretary	Apr. 11, 2019
Timothy McNulty	Investor Relations	Mar. 10, 2017

## SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

## Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.
2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.
3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated December 14, 2019.

Brandon Boddy  
Name of Director or Senior Officer

"Brandon Boddy"  
Signature

Chairman and CEO  
Official Capacity

<b><i>Issuer Details</i></b> Name of Issuer	For Quarter Ended	Date of Report YY/MM/DD
AgraFlora Organics International Inc.	September 30, 2019	2019/12/14
Issuer Address		
804-750 West Pender Street		
City/Province/Postal Code	Issuer Fax No.	Issuer Telephone No.
Vancouver, BC V6C 2T7	604.685.6905	604.682.2928
Contact Name	Contact Position	Contact Telephone No.
Brandon Boddy	Chairman and CEO	As above
Contact Email Address	Web Site Address	
<a href="mailto:ir@agraflora.com">ir@agraflora.com</a>	<a href="http://www.agraflora.com">www.agraflora.com</a>	



**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
**(FORMERLY PUF VENTURES INC.)**

**Condensed Interim Consolidated Financial Statements**  
**Nine Months Ended September 30, 2019**

**(Expressed in Canadian Dollars)**

**(Unaudited – prepared by management)**

### **Notice to Readers**

Under National Instrument 51-102, Part 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Agraflora Organics International Inc. (formerly PUF Ventures Inc.) for the nine months ended September 30, 2019 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim consolidated financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or review of these condensed interim consolidated financial statements.

**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
(FORMERLY PUF VENTURES INC.)  
Condensed Interim Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	Notes	September 30, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 1,822,983	\$ 10,718,888
Loans receivable	6	646,407	253,333
Amounts receivable	5	767,582	253,509
Marketable securities	4,19	3,360,265	21,875
Prepays and deposits	7	8,256,569	148,748
Inventory		2,808	-
		14,856,614	11,396,353
Investments	10	4,572,827	11,656,240
Property and equipment	8	37,326,150	1,591,099
Intangible assets	9,11,12	91,525,703	5,350,901
Goodwill	9,11,13	14,385,569	-
<b>TOTAL ASSETS</b>		<b>\$ 162,666,863</b>	<b>\$ 29,994,593</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14	\$ 1,908,578	\$ 324,632
Current portion of lease liability	15	309,510	-
		2,218,088	324,632
Long-term lease liability	15	1,555,098	-
<b>TOTAL LIABILITIES</b>		<b>3,773,186</b>	<b>324,632</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	174,165,360	48,624,710
Subscriptions receivable	16	-	(61,000)
Reserves	16	40,973,062	3,385,740
Deficit		(78,914,125)	(22,279,489)
Attributable to shareholders		136,224,297	29,669,961
Non-controlling interest	11,13	22,669,380	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>158,893,677</b>	<b>29,669,961</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 162,666,863</b>	<b>\$ 29,994,593</b>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 21)



**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
(FORMERLY PUF VENTURES INC.)  
Condensed Interim Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
<b>EXPENSES</b>				
Professional fees	\$ 284,658	\$ 73,476	\$ 486,223	\$ 136,201
Consulting and management (Note 17)	1,375,595	1,282,013	9,782,490	2,444,412
Development and compliance	44,351	70,984	86,882	84,558
Corporate development	435,665	163,599	2,943,505	492,542
Amortization	380,499	-	393,763	-
Office	241,999	(690)	278,805	72,241
Regulatory and transfer agent fees	148,717	31,513	417,771	140,801
Share-based compensation (Note 16)	31,015,915	-	37,641,588	2,054,508
Transaction costs (Notes 4,12)	3,545,179	-	4,325,179	-
Loss on foreign exchange	7,000	-	59,365	-
Distribution expenses (Note 12)	3,458,678	-	3,458,678	-
Finance and other costs	52,826	-	52,826	-
Production costs (Note 12)	4,841,323	-	4,841,323	-
Research and development (Note 12)	11,824,399	-	11,824,399	-
	(57,656,804)	(1,620,895)	(76,592,797)	(5,425,263)
<b>Other Items</b>				
Unrealized gain (loss) on marketable securities (Note 4)	(608,886)	(9,375)	(494,703)	(246,875)
Gain on revaluation of PSC (Note 11)	19,919,518	-	19,919,518	-
Gain on loss of control of Natures Hemp	-	310,435	-	310,435
Share of loss on equity accounted investments (Notes 11,13)	(46,324)	-	(529,592)	-
Gain on settlement of debt	17,537	-	17,537	-
Interest income	19,638	-	19,638	-
Gain on sale of assets (Note 4)	352,560	-	678,097	-
<b>Net and comprehensive loss for the period</b>	<b>\$ (38,002,761)</b>	<b>\$ (1,319,835)</b>	<b>\$ (56,982,302)</b>	<b>\$ (5,361,703)</b>
<b>Net and comprehensive loss attributable to:</b>				
Shareholders of Agraflorea Organics International Inc.	\$ (37,706,476)	\$ (1,457,623)	\$ (56,686,017)	\$ (5,366,562)
Non-controlling interests	(296,285)	137,888	(296,285)	4,859
	<b>\$ (38,002,761)</b>	<b>\$ (1,319,835)</b>	<b>\$ (56,982,302)</b>	<b>\$ (5,361,703)</b>
<b>Net loss per share – basic and diluted</b>	<b>\$ (0.05)</b>	<b>\$ (0.00)</b>	<b>\$ (0.10)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>825,501,140</b>	<b>296,405,365</b>	<b>564,615,960</b>	<b>292,291,405</b>

**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
**(FORMERLY PUF VENTURES INC.)**  
Condensed Interim Consolidated Statement of Changes in Equity  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	Share capital								
	Number of shares	Amount	Subscriptions received (receivable)	Share-based payment reserves	Warrant reserve	Non- controlling interest	Deficit	AOCI	Total
<b>Balance at December 31, 2017</b>	<b>276,052,890</b>	<b>\$ 22,252,798</b>	<b>\$ 149,200</b>	<b>\$ 809,657</b>	<b>\$ 855,963</b>	<b>\$ 920,305</b>	<b>\$ (17,384,754)</b>	<b>(37,500)</b>	<b>\$ 7,565,669</b>
Net and comprehensive loss for the period	-	-	-	-	-	-	(5,430,122)	(209,375)	(5,639,497)
Subscriptions received	-	-	(149,200)	-	-	-	-	-	(149,200)
Non-controlling interest on consolidation of AAA-H	-	-	-	-	-	-	(137,551)	-	(137,551)
Shares issued for services	10,000,000	1,460,000	-	-	-	-	-	-	1,460,000
Options exercised	5,400,000	371,200	-	-	-	-	-	-	371,200
Warrants exercised	16,854,650	1,104,536	-	-	-	-	-	-	1,104,536
Share-based compensation	-	-	-	2,054,508	-	-	-	-	2,054,508
<b>Balance at September 30, 2018</b>	<b>308,307,540</b>	<b>\$ 25,188,534</b>	<b>\$ -</b>	<b>\$ 2,864,165</b>	<b>\$ 855,963</b>	<b>\$ 920,305</b>	<b>\$ (22,952,427)</b>	<b>(246,875)</b>	<b>\$ 6,629,665</b>
<b>Balance at December 31, 2018</b>	<b>375,948,316</b>	<b>\$ 48,624,710</b>	<b>\$ (61,000)</b>	<b>\$ 2,568,276</b>	<b>\$ 817,464</b>	<b>\$ -</b>	<b>\$ (22,279,488)</b>	<b>\$-</b>	<b>\$ 29,669,961</b>
Net and comprehensive loss for the period	-	-	-	-	-	(296,285)	(56,686,017)	-	(56,982,302)
Non-controlling interest on consolidation of PSC	-	-	-	-	-	18,087,669	-	-	18,087,669
Non-controlling interest on acquisition of SUHM	-	-	-	-	-	4,877,996	-	-	4,877,996
Subscriptions received	-	-	61,000	-	-	-	-	-	61,000
Options exercised (Note 16)	23,125,000	2,931,750	-	-	-	-	-	-	2,931,750
Fair value of warrants exercised / expired	-	7,955	-	-	(7,955)	-	-	-	-
Fair value of options exercised / expired	-	1,994,930	-	(2,046,311)	-	-	51,381	-	-
Warrants exercised (Note 16)	13,147,700	1,051,816	-	-	-	-	-	-	1,051,816
Shares issued for equity participation (Note 11)	44,582,040	20,000,000	-	-	-	-	-	-	20,000,000
Shares issued for acquisitions (Note 12,13)	398,251,583	91,528,453	-	-	-	-	-	-	91,528,453
Shares issued for service (Note 16)	16,531,690	7,151,479	-	-	-	-	-	-	7,151,479
Shares issued for transaction costs (Note 4)	2,000,000	780,000	-	-	-	-	-	-	780,000
Share-based compensation (Note 16)	-	-	-	12,177,809	25,463,779	-	-	-	37,641,588
Issuance of special warrants	-	-	-	-	2,000,000	-	-	-	2,000,000
Shares issued for debt settlement (Note 16)	319,551	94,267	-	-	-	-	-	-	94,267
<b>Balance at September 30, 2019</b>	<b>873,905,880</b>	<b>\$ 174,165,360</b>	<b>\$ -</b>	<b>\$ 12,699,774</b>	<b>\$28,273,288</b>	<b>\$ 22,669,380</b>	<b>\$ (78,914,125)</b>	<b>\$ -</b>	<b>\$ 158,893,677</b>

See accompanying notes to the condensed interim consolidated financial statements

**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
(FORMERLY PUF VENTURES INC.)  
Condensed Interim Consolidated Statements of Cash Flows  
(Expressed in Canadian Dollars)  
(Unaudited – prepared by management)

	<b>Nine months ended</b>	
	<b>September 30, 2019</b>	<b>September 30, 2018</b>
<b>Operating activities</b>		
Net loss for the period	\$ (56,982,302)	\$ (5,425,263)
Adjustments for:		
Amortization	393,763	159,377
Share-based compensation	37,641,587	2,054,508
Unrealized gain on marketable securities	494,703	-
Gain on revaluation of PSC	(19,919,518)	-
Gain on sale of assets	(678,097)	-
Foreign exchange	59,365	-
Share of equity accounted investment losses	529,592	-
Shares issued for services	7,150,979	-
Transaction costs	4,325,179	-
Accrued interest	(19,638)	-
Gain on debt settlement	(17,537)	-
Shares issued for production costs	4,841,323	-
Shares issued for research and development costs	10,827,747	-
Shares issued for distribution expenses	3,458,678	-
Changes in non-cash working capital items:		
Receivables	(514,073)	(269,920)
Prepays	(3,266,498)	30,861
Accounts payable and accruals	1,636,385	407,958
Lease liability	1,864,608	-
<b>Net cash flows used in operating activities</b>	<b>(8,173,754)</b>	<b>(3,042,479)</b>
<b>Financing activities</b>		
Loans payable	-	(242,325)
Subscriptions received	61,000	149,200
Proceeds on issuance of common shares, net	23,922,566	1,475,736
<b>Net cash flows provided by financing activities</b>	<b>23,983,566</b>	<b>1,382,611</b>
<b>Investing activities</b>		
Expenditures on equipment	(1,440,272)	(27,900)
Purchase of seed agriculture	(12,510)	-
Capital lease advances	(20,000,000)	-
Investment in Best Cannabis Products Inc.	(230,000)	(250,000)
Investment in Glow Lifetech Ltd.	(200,000)	-
Investment in marketable securities	(2,200,000)	-
Investment in Solaris	-	(158,038)
Investment in PSC	-	(400,000)
Loans receivable	(633,848)	-
Proceeds received from interest income	10,413	-
<b>Net cash flows used in investing activities</b>	<b>(24,706,217)</b>	<b>(835,938)</b>
Change in cash	(8,895,905)	(2,495,806)
Cash, beginning	10,718,888	3,791,249
<b>Cash, ending</b>	<b>\$ 1,822,983</b>	<b>\$ 1,295,443</b>

**Non-cash transactions (Note 18)**

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**1. NATURE AND CONTINUANCE OF OPERATIONS**

AgraFlora Organics International Inc. (formerly PUF Ventures Inc.) (the “Company” or “Agraflora”) was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). The Company focuses on the cannabis industry. It owns an indoor cultivation operation in London, Ontario and has a controlling interest in Propagation Service Canada Inc., a 2,200,000 sq. ft. greenhouse complex in Delta, BC. During the year ended December 31, 2018, the Company changed its name from PUF Ventures Inc. to Agraflora Organics International Inc. and completed a share split on a 5 for 1 basis. All share capital numbers have been restated to reflect the share split. The Company's corporate office is located at Suite 810, 789 Pender Street, Vancouver, British Columbia V6C 1H2. The Company is listed on the Canadian Securities Exchange (“CSE”).

These 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 foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Further discussion of liquidity risk has been disclosed in Note 16. At September 30, 2019, the Company has a working capital of \$12,638,526 (December 31, 2018 – \$11,071,721), and an accumulated deficit of \$78,914,125 (December 31, 2018 - \$22,279,489).

The Company generates no cash flow from operations and therefore relies upon the issuance of securities and debt for financing. The Company intends to continue relying upon the issuance of securities to finance its operations to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the statement of financial position classifications used. These financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

**2. BASIS OF PREPARATION****Basis of preparation**

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. These consolidated financial statements include the accounts of the Company and its subsidiaries:

	Ownership Interest	Jurisdiction
AAA Heidelberg Inc.	100%	Canada
1210391 BC Ltd.	100%	Canada
Canutra Naturals Ltd.	100%	Canada
The Edibles and Infusions Corp.	80%	Canada
Propagation Services Canada Inc.	70%	Canada
Delta Organic Cannabis Corp.	100%	Canada
Pure Grow Medicinals S.A.S	100%	Columbia

## **2. BASIS OF PREPARATION (continued)**

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

### **Presentation and functional currency**

The functional currency of the parent company, is the Canadian dollar, which is also the presentation currency of the consolidated financial statements. The functional currency of the Company's subsidiaries is also the Canadian dollar.

Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (the exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the profit or loss.

### **Significant accounting judgments and estimates**

The preparation of these financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of these financial statements also requires management to exercise judgment in the process of applying the accounting policies.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in the notes to the annual consolidated financial statements for the year ended December 31, 2018.

Management has applied significant estimates and judgements related to the following:

#### *Business combination and asset acquisition*

Judgement is required to determine if the Company's acquisition represented a business combination or an asset purchase. More specifically, management concluded that all of the Company's acquisitions did not represent a business, as the assets acquired were not an integrated set of activities with inputs, processes and outputs. Since it was concluded that the acquisition represented the purchase of assets, there was no goodwill generated on the transactions and acquisition costs were capitalized to the assets purchased rather than expensed. As the Company concluded that the acquisition was an asset acquisition, an allocation of the purchase price to the individual identifiable assets acquired, including intangible assets, and liabilities assumed based on their fair values at the date of purchase was required. The fair values of the net assets acquired were calculated using significant estimates and judgments. If estimates or judgments differed, this could result in a materially different allocation of net assets on the consolidated statement of financial position.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgment and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent external valuation expert may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. In certain circumstances where estimates have been made, the Company may obtain third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices and accounting adjustments.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **Cash**

Cash in the statement of financial position are comprised of cash at banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

#### **Property and equipment**

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Equipment is depreciated annually at the following rates using the declining-balance method when the asset becomes available for use, and in the year of acquisition, only one-half of normal rates are used.

Furniture and equipment - 20% declining balance  
Computer equipment - 30% declining balance  
Building - 6% declining balance

#### **Intangible assets**

Intangible assets are recorded at cost less accumulated amortization and any impairment losses. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization of definite life intangibles is calculated on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any, over the following terms:

Health Canada Licenses – Useful life of the facility  
Other operational licenses – 8-18 years  
Patents and trademarks – 10 years  
Intellectual Property – 5-10 years

The estimated useful lives, residual values and amortization methods are reviewed annually and any changes in estimates are accounted for prospectively. Intangible assets with an indefinite life or not yet available for use are not subject to amortization.

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized as research and development expenses on the consolidated statement of comprehensive (loss) income as incurred. Capitalized deferred development costs are internally generated intangible assets.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Goodwill**

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the cash generating unit ("CGU") or group of CGUs which are expected to benefit from the synergies of the combination. Goodwill is not subject to amortization.

#### **Equity accounted investments**

Equity accounted investments are those entities in which the Company has significant influence, but does not have control over the financial and operating policies of the investees. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. Joint arrangement entities are those over which the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Joint ventures are joint arrangements, whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments in associates and joint ventures are accounted for by the equity method, whereby the original cost of the investment is adjusted for the Company's share of earnings or losses less dividends since significant influence was acquired. When net accumulated losses from an equity accounted investment exceed its carrying amount, the investment balance is reduced to \$nil and additional losses are not provided for unless the Company is committed to provide other financial support to the investee. The Company resumes accounting for its portion of income (loss) of the investment when the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended.

Profits or losses resulting from transactions between the Company and its associates are eliminated to the extent of the interest in the associate. The Company determines at each reporting date whether there is objective evidence that the investments in associates are impaired. The financial statements of associates are prepared for the same reporting period as the Company. Where necessary adjustments are made to bring the accounting policies of associates in line with those of the Company.

#### **Business Combination**

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

Contingent consideration is measured at its acquisition date fair value and is included as part of the consideration transferred in a business combination, subject to the applicable terms and conditions. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments with the corresponding gain or loss recognized in profit or loss.

Based on the facts and circumstances that existed at the acquisition date, management will perform a valuation analysis to allocate the purchase price based on the fair values of the identifiable assets acquired and liabilities assumed on the acquisition date. Management has one year from the acquisition date to confirm and finalize the facts and circumstances that support the finalized fair value analysis and related purchase price allocation. Until such time, these values are provisionally reported and are subject to change. Changes to fair values and allocations are retrospectively adjusted in subsequent periods.

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Business Combination (continued)**

In determining the fair value of all identifiable assets acquired and liabilities assumed, the most significant estimates generally relate to contingent consideration and intangible assets. Management exercises judgment in estimating the probability and timing of when earn-outs are expected to be achieved, which is used as the basis for estimating fair value. Identified intangible assets are fair valued using appropriate valuation techniques which are generally based on a forecast of the total expected future net cash flows of the acquiree. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

#### **Non-Controlling Interests**

Non-controlling interests ("NCI") are recognized either at fair value or at the NCI's proportionate share of the acquiree's net assets, determined on an acquisition-by-acquisition basis. For each acquisition, the excess of total consideration, the fair value of previously held equity interests held prior to obtaining control and the NCI in the acquiree, over the fair value of the identifiable net asset acquired, is recorded as goodwill.

#### **Impairment**

##### Long-lived assets

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in profit or loss for the period.

##### Intangible assets and goodwill

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment annually, and whenever events or circumstances that make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Finite life intangible assets are tested whenever there is an indication of impairment.



### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Impairment (continued)**

Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGUs for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment.

An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on a fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying value of assets in the CGU. Any impairment is recorded in profit and loss in the period in which the impairment is identified. A reversal of an asset impairment loss is allocated to the assets of the CGU on a pro rata basis. In allocating a reversal of an impairment loss, the carrying amount of an asset shall not be increased above the lower of its recoverable amount and the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior period. Impairment losses on goodwill are not subsequently reversed.

#### **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (the exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the profit or loss.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency gains and losses are reported on a net basis and included in profit or loss.

#### **Share capital**

Common shares:

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Non-monetary consideration:

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Share-based payment transactions**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

**Income taxes**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income taxes (continued)**

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Loss per share**

The Company presents basic and diluted loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

**Segment reporting**

The Company operates in the cannabis segment in Canada.

**Financial instruments**

The following is the Company's accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

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Nine months ended September 30, 2019

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)**

The following table shows the original classification under IFRS 9:

Financial assets/liabilities	Classification IFRS 9
Cash	Amortized cost
Loan receivables	Amortized cost
Marketable securities	FVTPL
Accounts receivable	Amortized cost
Accounts payable	Amortized cost

**(ii) Measurement****Financial assets and liabilities at amortized cost**

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

**Financial assets and liabilities at FVTPL**

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss in the period in which they arise.

**Debt investments at FVTOCI**

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive loss ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

**Equity investments at FVTOCI**

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

**(iii) Impairment of financial assets at amortized cost**

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

**Newly adopted accounting standards**

**IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), which replaces IAS 17, Leases (“IAS 17”) and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding 12 months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17. The Company adopted the standard on January 1, 2019. The Company did not have any leased properties in previous years, so the adoption of IFRS 16 has no impact on the beginning balances. The adoption of IFRS 16 has resulted in:

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in “finance and other costs” in the condensed consolidated interim statement of comprehensive (loss) income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company’s lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee’s incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the condensed consolidated interim statement of comprehensive (loss) income. Short term leases are defined as leases with a lease term of 12 months or less.

## **AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **IFRS 16 – Leases (continued)**

Variable lease payments that do not depend on an index, rate, or subject to a fair market value renewal condition are expensed as incurred and recognized in costs of goods sold, general and administration or sales and marketing expense, as appropriate given how the underlying leased asset is used, in the consolidated statement of comprehensive income.

Right-of-use assets are measured at cost, which is calculated as the amount of the initial measurement of lease liability plus any lease payments made at or before the commencement date, any initial direct costs and related restoration costs. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the useful life of the underlying asset. The depreciation is recognized from the commencement date of the lease

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company's financial statements.

### **4. MARKETABLE SECURITIES**

#### Volt Energy Inc.

During the year ended December 31, 2017, the Company received 625,000 common shares of Volt Energy Inc. on the sale of the Company's Lac Saint Simon Lithium project. The shares were initially valued at \$350,000. As at December 31, 2018, the shares had a fair value of \$21,875 and the Company has an unrealized loss of \$290,624 and at September 30, 2019, the shares had a fair value of \$18,750 and the Company has an unrealized loss of \$3,125.

#### CBD Therapeutics Corp.

During the period ended September 30, 2019, the Company invested \$1,000,000 in CBD Therapeutics Corp. (formerly Empower Clinics) in exchange for 10,000,000 units of CBD Therapeutics Corp. Each unit consists of one common share of CBD Therapeutics Corp. and one share purchase warrant, with each warrant entitling the Company to acquire one additional common share for a period of two years at a price of \$0.16 per warrant share. The shares were initially valued at \$1,000,000 and the Company assessed the value of the warrants to be \$Nil due to uncertainty of exercising the warrants. At September 30, 2019, the shares had a fair value of \$750,000 and the warrants had a fair value of \$Nil and the Company has an unrealized loss of \$250,000.

#### Cannabis Clonal Corp

During the period ended September 30, 2019, the Company purchased 3,000,000 common shares of Cannabis Clonal Corp. for \$300,000. At September 30, 2019, the shares had a fair value of \$300,000 and the Company did not recognize any unrealized gain or loss.

#### 1205293 B.C. Ltd

During the period ended September 30, 2019, the Company purchased 5,000,000 units of 1205293 B.C. Ltd. for \$500,000. Each unit consists of one common share of 1205293 B.C. Ltd. and one-half share of a common share purchase warrant, with each whole warrant entitling the Company to acquire one additional common share for a period of two years at a price of \$0.20 per common share. The Company assessed the value of the warrants to be \$Nil due to uncertainty of exercising the warrants. At September 30, 2019, the shares had a fair value of \$500,000 and the warrants had a fair value of \$Nil and the Company did not recognize any unrealized gain or loss.

#### ICC International Cannabis Corp.

The Company entered into a Cannabis Strain and Genetics Transfer Agreement with ICC International Cannabis Corp. ("ICC") on April 9, 2019 whereby the Company sold a portfolio of cannabis strains with a cost of \$9,703 to ICC in exchange for 1,000,000 common shares of ICC. The ICC shares were issued on April 25, 2019 and had an initial fair value of \$405,600. The Company recognized a gain on sale of \$395,897.

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**4. MARKETABLE SECURITIES (continued)**

At September 30, 2019, the shares had a fair value of \$52,972 and the Company has an unrealized loss of \$352,628.

On May 21, 2019, the Company entered into a commercial rights and offtake agreement with ICC, whereby ICC will purchase 20,000 kilograms of dried cannabis per annum for a term of 5 years expiring on December 31, 2024 from PSC. On May 28, 2019, in consideration for facilitating the executive of the Offtake Agreement, the Company issued 2,000,000 common shares with a fair value of \$780,000 to an arm's length third party as transaction costs (Note 16).

**Roughrider Capital Corp.**

In 2018, Volt Energy Inc. ("Volt") Volt spun out its oil and gas assets into Roughrider Capital Corp. ("Roughrider") and distributed to the Volt shareholders two common shares of Roughrider for every one Class A Volt shares held. As a result, the Company received 1,250,000 Roughrider common shares for its 625,000 common shares of Volt. At December 31, 2018, the Company recorded the Roughrider shares at \$Nil due to lack of market and uncertainty of realizing any value. At September 30, 2019 the shares had a fair value of \$156,250 and the Company recorded unrealized gain of \$156,250.

On April 2, 2019, the Company entered into a Share Purchase Option agreement with a third party, whereby the Company was granted an option to purchase all of the shares of AgraLeaf SA for a period of 12 months. On May 13, 2019, the Company assigned and transferred to Roughrider the option to purchase all of the optioned shares of AgraLeaf SA for a purchase price of 3,010,000 common shares of Roughrider. The shares were received and were initially valued at \$376,250. At September 30, 2019 the shares had a fair value of \$376,250 and the Company did not recognize any unrealized gain or loss.

**Sire Bioscience Inc.**

On February 28, 2019, the Company entered into a Simple Agreement for Future Equity ("SAFE") with Sire Bioscience Inc. ("Sire") (formerly Best Cannabis Products Inc.) whereby the Company invested \$230,000 ("Purchase Amount") into Sire (paid). Pursuant to the terms of the agreement, Sire is required to issue shares of BCP at a discount of 20% and subject to a valuation cap of \$8,672,500, upon the occurrence of certain events as indicated below:

- In the event of equity financing, Sire will automatically issue shares to the Company equal to the Purchase Amount divided by the conversion price if there is a transaction or series of related transactions with the principal purpose of raising capital pursuant to which Sire issues and sells shares at a fixed pre-money valuation of \$20,000,000 or more generating gross proceeds to Sire of at least \$10,000,000 before the expiration or termination of this SAFE; and
- In the event of liquidity, the Company will receive from Sire the number of shares equal to the Purchase Amount divided by the liquidity price.

In the event of dissolution, Sire will repay the Company the Purchase Amount, due and payable to the Company immediately prior to, or concurrent with, the consummation of the dissolution event.

The termination of the SAFE agreement is the earlier of the occurrence of any of the above events or December 31, 2019. If an equity financing, liquidity event or dissolution event does not occur on or before December 31, 2019, Sire will automatically issue to the Company the number of shares equal to the Purchase Amount divided by the conversion price. The conversion price of the SAFE agreement is the higher of the price per share equal to the valuation cap divided by the corporation capitalization or the price per share of the shares sold in the equity financing multiplied by the discount rate.

On September 11, 2019, Sire completed an equity financing and issued 4,600,000 common shares of Sire to the Company with a fair value of \$230,000. The Company did not recognize any gain from the conversion of investment to shares. At September 30, 2019, the shares had a fair value of \$230,000 and the Company did not recognize any unrealized gain or loss.

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**4. MARKETABLE SECURITIES (continued)**

On August 27, 2018 the Company advanced \$250,000 by way of a loan to Sire. The loan is due October 25, 2019 and bears interest at 4% per annum. The Company further advanced \$18,683 of loan to Sire during the period ended September 30, 2019. During the period ended September 30, 2019, the Company received a cash payment of \$10,413 for the interest on the loan and converted its \$250,000 convertible loan receivable and \$18,683 of debt to 5,373,670 common shares of Sire with a fair value of \$268,683. The Company did not recognize any gain or loss from the conversion of loan to shares. At September 30, 2019, the shares had a fair value of \$268,683 and the Company did not recognize any unrealized gain or loss.

**Eurolife Brands Inc.**

On July 15, 2019, the Company purchased 452 common shares of 1216165 B.C. Ltd for cash payment of \$0.0452. During the period ended September 30, 2019, the Company sold all of the common shares of 1216165 B.C Ltd in exchange for 3,616,000 common shares of Eurolife Brands Inc. (formerly Cannvas Medtech Inc.) with an initially value of \$352,560. At September 30, 2019 the shares had a fair value of \$307,360 and the Company recorded unrealized loss of \$45,200.

**Mindful Capital Inc.**

During the period ended September 30, the Company purchased 888,889 units of Mindful Capital Inc. for \$400,000. At September 30, 2019, the shares had a fair value of \$400,000 and the Company did not recognize any unrealized gain or loss.

**5. AMOUNTS RECEIVABLE**

	September 30, 2019	December 31, 2018
Government sales tax recoverable	\$ 767,582	\$ 253,509
	\$ 767,582	\$ 253,509

**6. LOANS RECEIVABLE**

On July 2, 2019 the Company advanced \$400,000 by way of a convertible loan to 2459160 Ontario Ltd. The loan is unsecured, matured on August 2, 2019 and bears interest at 10% per annum. The Company has the option to convert all or any portion of the principal amount of the loan, accrued interest and fees outstanding into common shares of 2459160 Ontario Ltd before the maturity date, at the maximum allowable discount. As at September 30, 2019, the loan has matured and is no longer convertible. The outstanding loan receivable is \$409,863, including accrued interest.

On July 10, 2019 the Company advanced \$200,000 by way of a loan to 1187744 BC Ltd. The loan is due July 10, 2020 and bears interest at 6% per annum. At September 30, 2019 a balance of \$202,696 is receivable, including accrued interest.

On September 3, 2019 the Company advanced \$33,848 (\$25,000USD) to Eurasia Infused Cosmetics Inc. as a shareholder loan. The loan is non-interest bearing and is repaid out of proceeds from the sale of products and to be repaid before the distribution of any dividends (Note 10).

**7. PREPAID EXPENSES**

	September 30, 2019	December 31, 2018
	\$	\$
Advances to third-party supplies	1,342,579	14,169
Prepaid management fees for Edibles JV	2,041,667	-
Deposits for purchase of 11122347 Canada Corp (Note 12)	4,841,323	-
Prepaid insurance and property taxes	31,000	7,706
Total	8,256,569	21,875



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**8. PROPERTY AND EQUIPMENT**

Property and equipment are held by the Company and its subsidiaries, Propagation Services Canada Inc. ("PSC"), AAA-Heidelberg Inc ("AAA-H"), Canutra Naturals Ltd ("Canutra") and The Edibles and Infusions Corp. ("Edibles"). The building, certain furniture and equipment, computers and leasehold improvements are currently not available for use and has therefore not been amortized. The opening balances have been shown as of the date of transition to the consolidation method of accounting.

	Furniture & Equipment \$	Building \$	Computers \$	Right of use asset- Lease \$	Leasehold improvements \$	Total \$
<b>Cost:</b>						
December 31, 2017	28,055	1,084,518	8,423	-	-	1,120,996
Additions	27,900	406,256	69,506	-	-	503,662
December 31, 2018	55,955	1,490,774	77,929	-	-	1,624,658
Additions	-	274,103	545	-	-	274,648
Acquired from business combinations	2,394,419	5,234,068	132,416	21,863,366	6,673,760	36,298,029
September 30, 2019	2,450,374	6,998,945	210,890	21,863,366	6,673,760	38,197,335
<b>Amortization:</b>						
At December 31, 2017	(14,781)	-	(5,967)	-	-	(20,748)
Charge for the year	(5,375)	-	(7,436)	-	-	(12,811)
At December 31, 2018	(20,156)	-	(13,403)	-	-	(33,559)
Charge for the period	(3,545)	-	(9,719)	-	-	(13,264)
Acquired from business combinations	-	-	-	(824,362)	-	(824,362)
September 30, 2019	(23,701)	-	(23,122)	(824,362)	-	(871,185)
<b>Net book value:</b>						
December 31, 2018	35,799	1,490,774	64,526	-	-	1,591,099
September 30, 2019	2,426,673	6,998,945	187,768	21,039,004	6,673,760	37,326,150

The right-of-use assets relate to the prepaid leased greenhouse facility in Delta, British Columbia for the purposes of cannabis cultivation and leased building and lands in Winnipeg, Manitoba for the purpose of production of edibles and infusion products containing CBD and THC. The lease in Delta was prepaid with a \$20,000,000 advance by PSC and as at September 30, 2019, there is no lease liability.

**9. INTANGIBLE ASSETS AND GOODWILL**

During the period ended September 30, 2019, the Company acquired intellectual property, licenses and goodwill as follows:

	Patents and Trademarks \$	Brand \$	License \$	Intellectual Property \$	Goodwill \$	Total \$
Balance, December 31, 2018	-	-	-	-	-	-
Additions	10,276,802	2,537,500	7,373,901	71,337,500	14,385,569	105,911,272
Balance, September 30, 2019	10,276,802	2,537,500	7,373,901	71,337,500	14,385,569	105,911,272

The intangible assets are not ready for its intended use and no amortization has been recorded for the period ended September 30, 2019.

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**10. INVESTMENTS****Investment in AAA-H**

On March 26, 2014, the Company acquired a 16.5% interest in AAA-H for \$120,000. The Company executed a Share Exchange Agreement effective January 26, 2015 with the principals of AAA-H whereby the Company could acquire the remaining 83.5% interest subject to certain conditions including the grant of a Marijuana for Medical Purposes Regulations (“MMPR”) license by issuing up to 22,937,500 common shares of the Company subject to CSE escrow policies. The common shares were to be issued in stages. On February 24, 2015, the first tranche of 5,437,500 common shares with a fair value of \$348,000 representing an additional 19.79% interest was completed. On February 24, 2015, the Company commenced equity accounting its investment in AAA-H. On October 30, 2015, the second tranche of 2,500,000 common shares, with a fair value of \$80,000 representing an additional 9.1% interest was completed. On May 7, 2017, the third tranche of 2,500,000 common shares, with a fair value of \$200,001 representing an additional 9.1% interest was completed. The Company then had a 54.49% ownership interest in AAA-H and as of that date commenced consolidating AAA-H as it held a controlling interest in AAA-H. On December 19, 2018, the Company acquired the remaining 45.51% interest in AAA-H by issuing 12,500,000 common shares with a fair value of \$2,187,500. The Company now has 100% ownership interest in AAA-H. In addition, during the year ended December 31, 2018, the Company issued a further 2,008,237 common shares with a fair value of \$351,441 to settle outstanding debts in AAA-H (Note 16).

The intangible asset of the Company increased during the year ended December 31, 2018 by \$2,187,801 on the full acquisition of AAA-H from \$3,240,416 to \$5,427,917. At September 30, 2019 the Company conducted an impairment analysis of the cost-generating unit which included the intangible asset as well and the associated property, plant and equipment, and determined that the fair value of the cost-generating unit was \$5,350,901 (December 31, 2018 - \$5,350,901). As a result, an impairment of \$Nil (December 31, 2018 - \$77,016) was recorded.

The non-controlling interest of 45.51% in AAA-H was held by other minority shareholders.

Balance, December 31, 2017, allocated to intangible asset	\$ 920,305
Non-controlling interest in loss of AAA-H to December 19, 2018	(79,136)
Non-controlling interest allocated to equity on acquisition of 100% interest	(841,169)
Balance, December 31, 2018 and September 30, 2019	\$ -

**Investment in Solaris**

During the year ended December 31, 2017, the Company acquired a 35% interest in a newly formed Australian company, Solaris Nutraceuticals Pty Ltd. (“Solaris”) for \$257,795 (US\$200,000). The investment was accounted for as an equity interest. Under equity accounting, the Company’s share of Solaris’ loss for the year ended December 31, 2017 totaled \$76,428.

During the year ended December 31, 2018, the Company advanced a further \$158,038 and subsequent to these advances, the Company and Solaris mutually agreed to terminate the investment and the Company wrote off its investment resulting in a net loss of \$339,406.

**Investment in Cannvas**

During the year ended December 31, 2017 the Company held an equity investment in Cannvas MedTech Inc. (“Cannvas”). On September 7, 2017, as completed on January 16, 2018, the Company entered into a Plan of Arrangement (“Arrangement”) with Cannvas whereby the Company distributed 100% of Cannvas’ shares to the Company’s shareholders on a pro rata basis. The Company’s shareholders were entitled to receive one share of Cannvas in exchange for every seven Company shares held as at the record date. Following completion of the Arrangement, (i) Cannvas held certain assets transferred to it by the Company, (ii) Cannvas became a reporting issuer in the Provinces of British Columbia, Alberta and Ontario, and intends to apply for and meet the listing requirements on a Canadian Stock Exchange, (iii) each of the Company’s shareholder will continue to be shareholders of the Company, and (iv) all of the Company’s shareholders as at the record date became shareholders of Cannvas.

Upon completion of the Arrangement in 2018 the Company recorded a loss of \$129,662 on the transaction.

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**10. INVESTMENTS (continued)****Investment in Natures Hemp**

By an agreement dated October 11, 2017, the Company acquired a 100% interest in a newly formed private company, Natures Hemp Corp. ("Natures Hemp") from the CEO and director of the Company. To acquire its interest, the Company issued 6,000,000 common shares with a fair value of \$600,000 to the shareholders of Natures Hemp and realized a cost of acquisition of \$544,282 as follows:

Fair value of shares issued to acquire Natures Hemp	\$ 600,000
Allocated to	
Cash	(44,899)
Receivable	(10,818)
Acquisition costs expensed	\$ 544,283

On August 28, 2018, Natures Hemp was spun out of the Company by way of a plan of arrangement (the "Plan of Arrangement"). Pursuant to the Plan of Arrangement, the shareholders of the Company received shares in Natures Hemp, and following completion of the Arrangement, Natures Hemp held the assets transferred to it by Agraflorea with a \$NIL value, and Natures Hemp became a reporting issuer in the Provinces of British Columbia, Alberta and Ontario.

Upon completion of the Plan of Arrangement in 2018 the Company recorded a loss of \$310,437 on the transaction.

**Investment in Eurasia Infused Cosmetics Inc.**

On August 19, 2019, the Company entered into a Share Purchase Agreement with Eurasia Infused Cosmetics Inc. ("Eurasia"), a private company in British Columbia that carries the business of selling CBD and Hemp based products in Hong Kong and China, whereby the Company purchased 50% of the outstanding common and preferred shares of Eurasia. As consideration, the Company issued 15,000,000 common shares with a fair value of \$4,050,000. Finders' fee of 1,500,000 common shares with a fair value of \$405,000 were issued on closing. The investment was accounted for as an equity interest. Under equity accounting, the Company's share of Eurasia's loss for the period ended September 30, 2019 totaled \$Nil.

**Investment in Glow Lifetech Ltd.**

During the period ended September 30, 2019, the Company acquired 37.5% interest in private company Glow Lifetech Ltd. for \$200,000. On June 10, 2019, Glow Lifetech Ltd. closed a private placement and diluted the Company's interest to 23.4%. The Company commenced equity accounting its investment in Glow Lifetech Ltd. and recorded a loss on its equity investment of \$82,173 for the period ended September 30, 2019.

**11. PROPAGATION SERVICES CANADA INC.**

During the year ended December 31, 2018, the Company acquired a 40% interest in a joint venture called Propagation Services Canada Inc. ("PSC"), which has ownership of the Houwelings Delta Propagation Facility ("Facility"), consisting of 2,200,000 sq. feet of illuminated greenhouse space and 1,700,000 sq. feet of "ebb and flood" irrigation space. On April 25, 2019, the Company issued 20,588,235 common shares with a fair value of \$10,705,882 to acquire an additional 10% interest in PSC.

The Company entered into an earn-in agreement with Delta Organics Cannabis Corp. ("DOCC") whereby DOCC can acquire an equity interest in the Company by committing \$40,000,000 for the furtherance of the Facility's lease obligations, construction expenses, and operational expenses. As consideration the Company will grant to DOCC the option to acquire up to 19.9% of the outstanding common shares of the Company and a 20% interest in class B non-voting shares of PSC pursuant to the terms of the agreement. DOCC had acquired 89,164,080 (2018- 44,582,040) of the common shares of the Company for proceeds of \$40,000,000 (2018 - \$20,000,000) and received 20% of class B non-voting shares in PSC.

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**11. PROPAGATION SERVICES CANADA INC. (continued)**

On July 11, 2019, the Company completed the transaction pursuant to an Asset Purchase Agreement dated June 10, 2019 with Organic Flower Investments Group Inc. ("OFIG") whereby the Company acquired 100% of all of issued and outstanding common shares of DOCC, which gives the Company an additional 20% equity stake in Propagation Services Canada Inc. The Company now has a 70% ownership interest in PSC. Management assessed that the Company controls PSC and in accordance with IFRS, consolidated the financial results of PSC from July 11, 2019 onwards in these condensed interim consolidated financial statements.

Under equity accounting, the Company's share of PSC loss for the period prior to consolidation totaled \$447,419 (2018 - \$31,967). As a result of the transaction to the consolidation method, the Company recorded a non-controlling interest of \$18,087,669.

Prior to obtaining control, the Company recorded its investment in PSC to fair value, resulting in a gain of \$19,919,518.

Fair value of shares issued to acquire controlling interest in PSC	\$ 60,292,230
Implied value of PSC	\$ 60,292,230
Net assets (liabilities) acquired	
Accounts receivable	68,260
Prepaid	51,456
Accounts payable and accrued liabilities	(1,675,842)
Amounts due to the Company	(23,722,056)
Property, plant and equipment	24,329,532
Intangible assets – License and Processes	50,800,000
Total net assets acquired	49,851,350
Balance allocated to	
Goodwill	10,437,880
Total	\$ 60,292,230

Goodwill arose on this acquisition because purchase consideration included a control premium. In addition, the consideration paid reflected the value of PSC's application for Health Canada Standard Cultivation License and the benefits from access to a facility is large in scale and the cannabis production processes that are already in place. Those benefits were recognized separately from goodwill as identifiable intangible assets.

The non-controlling interest of 30% in PSC is held by other minority shareholders.

	\$
Non-controlling interest, December 31, 2018	-
Fair value of non-controlling interest on transition to consolidation method of accounting	18,087,669
Non-controlling interest in loss of PSC to September 30, 2019	(224,282)
Total non-controlling interest, September 30, 2019	17,863,387

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to goodwill, intangible assets and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

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**12. ACQUISITIONS**

On July 11, 2019, the Company completed the transaction pursuant to an Asset Purchase Agreement dated June 10, 2019 with OFIG whereby the Company acquired certain assets listed below from OFIG. As consideration the Company issued 348,109,251 common shares with a fair value of \$71,863,907 on July 11, 2019.

- Exclusive Distribution Agreement dated May 8, 2019 between the Vendor and ICC International Cannabis Corp., (“ICC”) which gives the Company access to a European distribution network composed of 80,000 retail outlets and pharmacies, as well as commercial rights for cannabis processing / finishing at select European-GMP certified facilities. The company expensed the acquisition cost as distribution expenses in the consolidated statement of comprehensive loss.
- Exclusive Sub-License Agreement dated May 30, 2019 between the Vendor and 1205293 B.C. Ltd. o/a Ture Focus Canada, which gives the Company rights to True Focus Canada’s IP portfolio. The Company capitalized the acquisition costs of the IP portfolio as intangible assets.
- 80% of all of issued and outstanding common shares of 11353675 Canada Corp., which is party to an exclusive partnership agreement with a Toronto-based brewery to formulate, manufacture and distribute all cannabinoid-infused beverages developed by the brewery. The Company expensed the acquisition costs as production expenses in the consolidated statement of comprehensive loss.
- 100% of all of issued and outstanding common shares of SUHM Investments Inc (“SUHM”). SUHM is an 80% partner of the Edibles and Infusions Joint Venture. The Company accounted for the acquisition as a business combination under IFRS 3 (Note 13).
- 80% of all of issued and outstanding common shares of Potluck Potions and Edibles Inc., a party to an exclusive cannabinoid-infused bottling and manufacturing agreement with a Toronto bottling facility. The Company expensed the acquisition costs as research and development expenses in the consolidated statement of comprehensive loss.
- 80% of all of issued and outstanding common shares of 11122347 Canada Corp., which is party to a distribution agreement and licensing agreement (collectively, the “Definitive Agreements”) with Health Cap Holdings, Inc. (“HealthCap”) whereby, subject to obtaining applicable licenses, HealthCap will manufacture, supply and license certain dosing caps referred to as “HCHI Dosing Caps”. The Company recorded the cost of acquisition as prepaid expenses since the transaction has not closed yet as of September 30, 2019.
- 100% of all of issued and outstanding common shares of 1180782 B.C. Ltd. (“DOC”), which owns a 20% equity stake in Propagation Services Canada Inc. (Note 11)
- 80% of all of issued and outstanding common shares of 11353705 Canada Corp., which controls the rights to a proprietary manufacturing process and formulation catalogue for a Nicorette-inspired medicinal cannabinoid product line. The Company expensed the acquisition costs as research and development expenses in the consolidated statement of comprehensive loss.
- 80% of all of issued and outstanding common shares of 11406426 Canada Corp., which holds Canadian exclusive rights to a portfolio of cannabinoid-infused product formulations. The Company expensed the acquisition costs as research and development expenses in the consolidated statement of comprehensive loss.
- 100% of all of issued and outstanding common shares of Trichome Cannabrands Inc., which holds the rights to a portfolio of 57 registered trademarks in Canada for a diversified range of cannabis products and services. The Company capitalized the acquisition costs of the trademarks as intangible assets.
- 100% of all of issued and outstanding common shares of Canutra Naturals Ltd., which has operations in the cultivation, extraction, manufacturing, and marketing of premium skincare, cosmetics and cannabinoid product lines from its flagship facility in eastern Canada. The Company accounted for the acquisition as a business combination under IFRS 3.

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**12. ACQUISITIONS (continued)**

The Company issued finder common shares of 13,054,097 with a fair value of \$4,503,663 to an arm's length party for facilitating the acquisition. The finder fees of \$1,027,353 related to business combinations were capitalized as the as part of the consideration paid and the remaining finder fees of \$3,545,179 were expensed as transaction costs. The company also granted 6,040,000 stock options with a fair value of \$1,124,359 and 130,654,776 warrants with a fair value of \$25,463,779 as part of the consideration paid to acquire the assets from OFIG. The Company expensed the fees paid as share-based compensation expense.

The fair value above represents the price for a batch of assets and the allocations of the purchase price has been determine below, using the relative costing method.

	<b>Relative fair value applied \$</b>	<b>Relative fair value of finder fees applied \$</b>
DOCC	12,058,446	2,260,958
SUHM (Edibles and Infusions)	16,107,937	604,048
1205293 B.C. Ltd. o/a Ture Focus Canada	4,994,974	187,312
11122347 Canada Corp	4,841,323	181,550
11406426 Canada Corp.	2,640,914	99,034
Trichome Cannabrand Inc	5,281,828	198,069
11353705 Canada Corp.	2,640,914	99,034
11353675 Canada Corp	4,841,323	181,550
Distribution Agreement with ICC	3,458,679	129,700
Canutra Naturals Ltd	9,451,650	354,437
Potluck Potions and Edibles Inc	5,545,919	207,971
<b>Total</b>	<b>71,863,907</b>	<b>4,503,663</b>

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of total consideration has been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted retrospectively to the acquisition date in future reporting periods.

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**13. BUSINESS COMBINATIONS**Canutra Naturals Ltd.

On July 11, 2019 the Company acquired 100% of the issued and outstanding shares of Canutra. Canutra is in the process of becoming licensed to process, cultivate and sell cannabis. This acquisition has been accounted for as business combination as Canutra met the definition of a business under IFRS 3, Business Combinations. As consideration, the Company paid 27,396,088 common shares with a fair value of \$9,451,650 and issued 1,027,353 finder shares with a fair value of \$354,437. In accordance with IFRS 3 – Business Combination, the equity consideration on transferred was measured at fair value at the acquisition date, which is the date control was obtained.

The Company is in the process of assessing the fair value of the net assets acquired and, as a result, the fair value of the net assets acquired may be subject to adjustments pending completion of final valuations and post-closing adjustments. The table below summarizes the preliminary estimated fair value of the assets acquired and the liabilities assumed at the effective acquisition date:

<b>Consideration paid</b>	<b>\$</b>
Shares and finder shares issued	9,806,087
<b>Total Consideration paid</b>	<b>9,806,087</b>
Net assets acquired	
Cash	129,255
Accounts receivable	24,032
Inventory	2,610
Property, plant and equipment	2,381,850
Intangible asset - Formulations	2,537,500
Intangible asset – Brand	2,537,500
Accounts payable and accrued liabilities	(297,393)
Total net assets acquired	7,315,354
Balance allocated to	
Goodwill	2,490,733
<b>Total</b>	<b>9,806,087</b>

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to goodwill, intangible assets and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted to the acquisition date in future reporting periods.

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**13. BUSINESS COMBINATIONS (continued)**The Edibles and Infusions Corp.

On July 11, 2019, the Company acquired 100% of the issued and outstanding shares of SUHM. SUHM is an 80% partner of The Edibles and Infusions Corp. Joint Venture ("Edibles"). Edibles owns an edibles manufacturing facility in Winnipeg, Manitoba. This acquisition has been accounted for as business combination as Edibles met the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company paid 46,689,673 common shares with a fair value of \$16,107,937 and issued 1,750,863 finder shares with a fair value of \$604,048. In accordance with IFRS 3 – Business Combination, the equity consideration on transferred was measured at fair value at the acquisition date, which is the date control was obtained.

<b>Consideration paid</b>	<b>\$</b>
Cash	2,800,000
Shares and finder shares issued	16,711,985
<b>Total Consideration paid</b>	<b>19,511,985</b>
Implied value of Edibles	24,389,980
Net assets acquired	
Cash	56,636
Accounts receivable	515
Prepaid	2,041,667
Property, plant and equipment	847,543
Intangible asset – IP formulations	14,000,000
Intangible asset – IP Food Processing / Manufacturing Ability	6,000,000
Accounts payable and accrued liabilities	(13,335)
Total net assets acquired	22,933,026
Balance allocated to	
Goodwill	1,456,954
<b>Total</b>	<b>24,389,980</b>

The non-controlling interest of 20% in Edibles is held by the joint venture partner.

	<b>\$</b>
Non-controlling interest, December 31, 2018	-
Fair value of non-controlling interest on transition to consolidation method of accounting	4,877,996
Non-controlling interest in loss of Edibles to September 30, 2019	(72,003)
Total non-controlling interest, September 30, 2019	4,805,993

The accounting for this acquisition has been provisionally determined at September 30, 2019. The fair value of net assets acquired, specifically with respect to goodwill, intangible assets and total consideration have been determined provisionally and subject to adjustment. Upon completion of a comprehensive valuation and finalization of the purchase price allocation, the amounts above may be adjusted to the acquisition date in future reporting periods.



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**14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Accounts payable	\$ 1,533,727	\$ 141,039
Amount due to related parties	275,799	69,275
Accrued liabilities	99,052	114,318
	<b>\$ 1,908,578</b>	<b>\$ 324,632</b>

**15. LEASE LIABILITIES**

The following is a continuity schedule of lease liabilities for the nine months ended September 30, 2019:

	<b>\$</b>
<b>Balance, December 31, 2018</b>	<b>-</b>
Lease additions	1,863,367
Lease payments	(51,585)
Interest expense on lease liabilities	52,826
<b>Balance, September 30, 2019</b>	<b>1,864,608</b>
Current portion	(309,510)
<b>Long-term portion</b>	<b>1,555,098</b>

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

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**16. SHARE CAPITAL**

**a) Common shares**

**Authorized:**

Unlimited number of common shares without par value.

**Issued:**

During the period ended September 30, 2019, the former CEO and president resigned from the Company. The Company issued 3,750,000 common shares pursuant to an option exercise for \$630,000 as departing compensation for past services.

On March 22, 2019, the Company closed a \$20,000,000 third tranche of the \$40,000,000 Equity Participation and Earn-In Agreement with DOCC and issued 44,582,040 common shares of the Company at a price of \$0.45 per share.

On April 25, 2019 the Company issued 20,588,235 common shares with a fair value of \$10,705,882 for the acquisition of 10% of PSC (Note 11).

On April 25, 2019, the Company issued 10,000,000 common shares with a fair value of \$5,200,000 to key personnel, including related parties, who are assisting with PSC and the 2.2 million square foot greenhouse project located in Delta, British Columbia.

On April 25, 2019 the Company issued 281,960 common shares with a fair value of \$146,478 pursuant to a supply agreement entered into with Vendure Genetics Labs Inc. dated December 26, 2018 for the supply of certain cannabis plants and intellectual property rights.

On April 25, 2019 and June 26, 2019, the Company issued 1,250,000 and 1,250,000 common shares as the first and second allotment to a consultant with fair values of \$650,000 and \$525,000 respectively pursuant to a letter of intent (the "LOI"). As set out in the LOI, the Company agreed to issue a total aggregate of 5,000,000 common shares to the consultant with the remaining 2,500,000 common shares to be issued by December 25, 2019.

On May 28, 2019, the Company issued 2,000,000 common shares at a fair value of \$780,000 to a non-related party as transaction costs in connection with the commercial rights and offtake agreement entered into with ICC International Cannabis Corp (Note 4).

On July 11, 2019, the Company issued 348,109,251 common shares with a fair value of \$71,863,907 and 13,054,097 common shares with a fair value of \$4,503,663 for the acquisition certain assets from OFIG (Note 12).

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**16. SHARE CAPITAL (continued)****a) Common shares (continued)**

On August 12, 2019, the Company issued 319,551 common shares with a fair value of \$94,267 to settle \$111,805 of debt for past consulting and other services provided, resulting in a gain on settlement of \$17,537.

On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of \$4,050,000 and 1,500,000 common shares with a fair value of \$405,000 for the acquisition of Eurasia (Note 10).

During the period ended September 30, 2019, the Company issued 23,125,000 common shares on the exercise of options for proceeds of \$2,931,750. An amount of \$1,994,930 was transferred from option reserve to share capital on exercise.

During the period ended September 30, 2019, 13,147,700 common shares on the exercise of warrants for proceeds of \$1,051,816. An amount of \$7,955 was transferred from warrant reserve to share capital on exercise.

On October 18, 2018, the Company closed a \$12,500,000 first tranche of \$40,000,000 Equity Participation and Earn-In Agreement with Delta Organic Cannabis Corp. and issued 27,863,775 common shares of the Company at a price of \$0.448 per share.

On December 7, 2018, the Company closed a \$7,500,000 second tranche of the \$40,000,000 Equity Participation and Earn-In Agreement with DOCC. and issued 16,718,265 common shares of the Company at a price of \$0.448 per share.

During the year ended December 31, 2018, the Company issued 10,000,000 common shares with a fair value of \$1,460,000 for consulting services provided.

During year ended December 31, 2018 the Company issued 2,008,236 common shares with a fair value of \$351,441 to settle \$1,326,620 of debt, resulting in a gain on settlement of \$975,179 (Note 9).

During year ended December 31, 2018 the Company issued 12,500,000 common shares with fair value of \$2,187,500 to acquire the remaining outstanding shares of AAA-H, giving the Company 100% ownership of AAA-H (Note 9).

During the year ended December 31, 2018, 25,405,150 warrants was exercised for proceed of \$1,691,076. An amount of \$35,136 was transferred from warrant reserve to share capital on exercise.

During the year ended December 31, 2018, 5,400,000 options was exercised for proceeds of \$371,200. An amount of \$275,559 was transferred from option reserve to share capital on exercise.

As at September 30, 2019, the Company had \$Nil in subscription receivable, compare to \$61,000 subscription received in December 31, 2018.

**b) Warrants outstanding**

	Number of warrants	Weighted average exercise price
<b>At December 31, 2017</b>	40,456,250	\$ 0.072
Warrants exercised	(25,405,150)	0.066
Warrants expired	(443,400)	-
<b>At December 31, 2018</b>	14,607,700	\$ 0.080
Warrants exercised	(13,147,700)	0.08
Warrants granted	130,654,776	0.39
Warrants expired	(1,460,000)	0.08
<b>Balance at September 30, 2019</b>	130,654,776	\$ 0.39

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**16. SHARE CAPITAL (continued)**

On July 11, 2019, the Company granted 130,654,776 warrants as part of the consideration paid to acquire the assets from OFIG. Out of the 130,654,776 warrants, 20,628,140 warrants have an exercise price of \$0.05 per warrant expiring June 16, 2021, 43,685,818 warrants have an exercise price of \$0.15 per warrant expiring August 21, 2023 and 66,340,818 warrants have an exercise price of \$0.65 per warrant expiring December, 2020. These warrants have a total fair value, calculated using the Black-Scholes Option Pricing Model of \$25,463,779 assuming an expected life of 1.5 years, a risk-free interest rate of 1.62%, an expected dividend rate of 0.00%, and an expected annual volatility of 115%.

**c) Stock options outstanding**

Under Company's 2015 Stock Option Plan, the Company may grant options to directors, officers, employees, and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 20% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of ten years and vesting is determined by the Board of Directors.

<b>Grant Date</b>	<b>Expiry date</b>	<b>Number of options</b>	<b>Exercise price</b>
March 29, 2018	March 29, 2020	4,750,000	0.168
September 10, 2018	September 10, 2020	500,000	0.128
October 31, 2018	October 31, 2020	1,250,000	0.142
March 15, 2019	March 30, 2020	20,400,000	0.550
May 21, 2019	May 21, 2024	6,000,000	0.460
May 30, 2019	May 30, 2024	3,000,000	0.390
July 11, 2019	May 17, 2024	6,040,000	0.03
August 1, 2019	August 1, 2024	30,000,000	0.13
<b>Balance at September 30, 2019</b>		<b>71,940,000</b>	<b>\$ 0.38</b>

	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>At December 31, 2017</b>	15,087,500	\$ 0.080
Options cancelled and expired	-	-
Options exercised	(5,400,000)	0.069
Options granted	24,625,000	0.159
<b>At December 31, 2018</b>	34,312,500	0.138
Options cancelled and expired	(937,500)	0.090
Options exercised	(26,875,000)	0.133
Options granted	65,440,000	0.40
<b>At September 30, 2019</b>	<b>71,940,000</b>	<b>\$ 0.38</b>

The weighted average remaining life of the options outstanding is 3.23 years (December 31, 2018 – 1.16 years)

On March 29, 2018, the Company granted 16,625,000 stock options to officers and consultants of the Company with an exercise price of \$0.168 per option expiring March 29, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$1,305,255 assuming an expected life of 1.5 years, a risk-free interest rate of 1.77%, an expected dividend rate of 0.00%, and an expected annual volatility of 100%.

On September 10, 2018, the Company granted 1,000,000 stock options to officers and consultants of the Company with an exercise price of \$0.13 per option expiring September 10, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$58,412 assuming an expected life of 1.5 years, a risk-free interest rate of 2.11%, an expected dividend rate of 0.00%, and an expected annual volatility of 97%.

On October 31, 2018, the Company granted 7,000,000 stock options to officers and consultants of the Company with an exercise price of \$0.14 per option expiring October 31, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$707,827 assuming an expected life of 1.5 years, a risk-free interest rate of 2.11%, an expected dividend rate of 0.00%, and an expected annual volatility of 109%.

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

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**16. SHARE CAPITAL (continued)****c) Stock options outstanding (continued)**

During the year ended December 31, 2018, 5,400,000 options were exercised for gross proceeds of \$371,200.

On March 15, 2019, the Company granted 20,400,000 stock options to consultants of the Company with an exercise price of \$0.55 per option and an one-year term expiring March 15, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$4,341,035 assuming an expected life of 0.75 years, a risk-free interest rate of 1.62%, an expected dividend rate of 0.00%, and an expected annual volatility of 116%.

On May 21, 2019, the Company granted 6,000,000 incentive stock options to directors, officers and consultants with an exercise price of \$0.46 and a five-year term expiring on May 21, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$1,688,545 assuming an expected life of 1.5 years, a risk-free interest rate of 1.66%, an expected dividend rate of 0.00%, and an expected annual volatility of 125%.

On May 30, 2019, the Company granted 3,000,000 incentive stock options to directors, officers and consultants with an exercise price of \$0.39 and a five-year term expiring on May 30, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$596,092 assuming an expected life of 1.5 years, a risk-free interest rate of 1.56%, an expected dividend rate of 0.00%, and an expected annual volatility of 122%.

On July 11, 2019, the Company granted 6,040,000 stock options as consideration for purchase of assets from OFIG with an exercise price of \$0.325 per option expiring May 17, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$1,124,360 assuming an expected life of 1.5 years, a risk-free interest rate of 1.62%, an expected dividend rate of 0.00%, and an expected annual volatility of 115%.

On August 1, 2019, the Company granted 30,000,000 stock options to certain directors, officers and consultants with an exercise price of \$0.31 per option expiring August 1, 2024. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of \$4,427,777 assuming an expected life of 1.5 years, a risk-free interest rate of 1.53%, an expected dividend rate of 0.00%, and an expected annual volatility of 115%.

During the nine months ended September 30, 2019, 23,125,000 options were exercised for gross proceeds of \$2,932,250 and 3,750,000 options were exercised for \$630,000 as departing compensation for past services for the former CEO and President.

During the nine months ended September 30, 2019, an amount of \$51,380 was transferred from option reserve to accumulated deficit for options expired, cancelled or forfeited.

**d) Special Warrants**

On September 27, 2019, the Company issued 6,666,667 special warrants of the Company at a price of \$0.30 per special warrant for gross proceeds of \$2,000,000. Each Special Warrant is convertible into units with each unit consisting of one common share of the Company and one transferable common share purchase warrant with each warrant entitling the holder thereof to purchase one additional share of the Company at a price of \$0.50 per share for a period of 36 months from the date of issuance of the warrants.

**e) Share-Based Payments Reserve**

The share-based payment reserve represents employee entitlements to share-based awards that have been charge to the loss and other comprehensive loss in the periods during which the entitlements were accrued and have not yet been exercised. When the stock options are exercised, the corresponding amount will be transferred to share capital. If the options expired unexercised, the amount recorded is transferred to deficit.

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**16. SHARE CAPITAL (continued)****f) Warrants Reserve**

The warrants reserve records fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to deficit.

**17. RELATED PARTY TRANSACTIONS**

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel and former management personnel for the period ended September 30, 2019 and year ended December 31, 2018:

<b>Nine months ended September 30, 2019</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based Compensation</b>
Cherry Consulting Ltd	\$ 59,955	\$ 70,355
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	3,775,483	89,128
Clairewood Partners / David Parry	230,000	678,127
Christopher Hornung	90,000	161,956
Jerry Habuda	-	98,293
Brian O'Neill / O'Neill Law LLP	19,340	158,385
Joseph Perino	-	98,293
Jan Urata / Take It Public Services Inc.	85,200	18,449
Peter Nguyen / 1183877 BC Ltd	15,000	-
Brandon Boddy/ 1061437 BC Ltd	150,000	1,005,385
	<b>\$ 4,424,978</b>	<b>\$2,378,371</b>

  

<b>Nine months ended September 30, 2018</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based Compensation</b>
Christopher Hornung	\$ -	\$ -
Cherry Consulting Ltd	18,600	-
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	98,000	617,898
FourOneSix Inc.	125,000	308,949
Clairewood Partners / David Parry	30,250	617,898
	<b>\$ 271,850</b>	<b>\$ 1,544,745</b>

Amounts due to and due from former related parties are unsecured, non-interest bearing and due on demand. At September 30, 2019, \$275,799 (December 31, 2018 - \$69,275) is owing to current and former related parties for unpaid fees which are included in accounts payable and accrued liabilities. Refer also to Note 14.

**18. SUPPLEMENTAL CASH FLOW INFORMATION**

Non -cash financing and investing activities along with other cash flow information during the nine months ended September 30, 2019 and year ended December 31, 2018 are as follows:

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Fair value of transfer on exercise of stock options and warrants	\$2,054,266	\$ 310,695
Fair value of stock options and warrants expired	51,381	42,979
Shares issued for acquisitions and investments	91,528,453	2,187,500
Shares issued for debt settlement	94,267	351,441
Shares and options issued for services	\$ 7,151,479	\$ 1,460,000

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****a) Classification of financial instruments**

IFRS 13, *Fair Value Measurement*, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and accounts payable and accrued liabilities are measured using level 1 inputs.

The following is an analysis of the Company's financial assets measured at fair value as at September 30, 2019 and December 31, 2018:

	As at September 30, 2019		
	Level 1	Level 2	Level 3
Marketable securities	\$ 1,627,765	\$ 1,332,500	\$ 400,000
Loans receivable	-	-	\$ 646,407
Investments	-	-	\$ 4,572,827

  

	As at December 31, 2018		
	Level 1	Level 2	Level 3
Marketable securities	\$ 21,875	-	-
Loans receivable	-	-	\$ 253,333
Investments	-	-	\$11,656,240

**b) Financial risk management**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

The loans receivable exposed the Company to credit risk and the Company has limited this exposure by securing one of the loans with collateral; and the other loan is unsecured.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with the construction of its cannabis facilities in Ontario and British Columbia. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at September 30, 2019 and expected cash flows for the next 12 months are sufficient to fund the Company's ongoing operational needs. The Company will need additional funding through equity or debt financing, or a combination thereof, to complete its facilities.

**Market risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

**19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**(a) Interest rate risk**

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates. The Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and current financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

**(b) Foreign currency risk**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. The Company does not have significant items in other currencies.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

**(c) Capital risk management**

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders. The availability of new capital will depend on many factors including positive stock market conditions, and the experience of management. The Company is not subject to any external covenants on its capital.

**20. COMMITMENTS**

During the period ended September 30, 2019, the Company entered into Supply Agreement with Vendure Genetics Labs Inc. ("Vendure") to purchase from Vendure certain plants, plant matter, related plant-based products and Vendure's right, title and interest, including the intellectual property rights in the products for a purchase price of \$200,000 (paid) and 281,690 common shares (issued with a fair value of \$146,478). Under the agreement, the Company is committed to issue a further \$200,00 worth of common shares at the time of awarding Cannabis Cultivation license, and a further number of shares equal to \$150,000 per year on each of March 31, 2020, March 31, 2021, March 31, 2022, and March 31, 2023.

**21. SUBSEQUENT EVENTS**

- a) The Company has entered into a share exchange agreement (the "Agreement") with its wholly owned subsidiary 1210391 BC Ltd. ("SubCo" – incorporated May 28, 2019) and JJ Wolf Investments Ltd. ("Wolf"), whereby the Company, who is the registered and beneficial owner of 1 common share (the "SubCo Share") of SubCo which represents 100% of the issued and outstanding common shares of SubCo, sold the SubCo Share to Wolf in exchange for the issuance of 10,000,000 common shares (the "Wolf Shares") in the capital of Wolf at a price of \$0.50 per Wolf Share, resulting in the Company owning 50% of the common equity of Wolf. The Company also transferred certain assets listed below to Wolf:



**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

**21. SUBSEQUENT EVENTS (continued)**

<b>Asset</b>	<b>Amount transferred</b>
Sire Bioscience Inc.	4,600,000 shares
Sire Bioscience Inc	5,373,670 shares
Roughrider Capital Corp	4,260,000 shares
Volt Energy Corp	625,000 shares
Cannabis Clonal Corp	3,000,000 shares
Empower Clinics Inc.	100,000,000 shares
Empower Clinics Inc	10,000,000 warrants
1205293 B.C. Ltd	5,000,000 shares
1205293 B.C. Ltd	2,500,000 warrants
ICC International Cannabis Corp.	1,000,000 shares

- b) On October 15, 2019, the Company issued 1,250,000 common shares as the third allotment to a consultant with fair value of \$318,750 pursuant to a letter of intent (the “LOI”).
- c) On October 22, 2019, the Company entered into a Share Purchase Agreement and an Assignment and Assumption of Share Purchase Agreement to purchase 100% of the issued and outstanding shares of The Good Company GmbH, a German limited liability company on a pro-rata basis. As consideration, the Company will pay cash consideration of \$1,000,000, issuance of 47,916,667 common shares of the Company and repayment of certain shareholder loans (issued on November 4, 2019 with a fair value of \$10,302,083).

Under the terms of the Share Purchase Agreement, the sellers are entitled to receive additional shares of the Company corresponding to an aggregate deemed value of \$5,000,000 if certain milestones are achieved or triggered within 18 months from the closing date of the Share Purchase Agreement or in the event that the sellers exercise Earn-Out Shifting Option. The Company also agreed to make cash contributions to The Good Company totaling \$1,200,000.

In consideration for facilitating the execution of the transaction, the Company issued 5,000,000 finder shares to arm’s length parties with a fair value of \$1,075,000.

- d) On October 30, 2019, the Company entered into a Letter of Intent, with EuroLife Brands Inc. (“EuroLife”). Under the terms of the Letter of Intent, the companies will collaborate to curate custom evidence-based cannabis content and associated learning modules to be deployed across EuroLife’s physician-sanctioned German cannabis education platform, Cannvas.de.
- e) On November 11, 2019, the Company entered into a definitive agreement with Tobmar Newsstand Inc (“TN”), North America’s premier newsstand retailer, whereby the parties have agreed that the Company will develop, launch and market a variety of hemp lip balms to be sold at TN and TN will sell a variety of the Company’s hemp products at certain retail locations, on the terms and conditions set out in the agreement.

The execution of the definitive agreement is a specified trigger for the issuance of milestone shares be issued in accordance with the consulting agreements dated May 23, 2019, as amended on August 27, 2019 and October 22, 2019, entered into with 1061437 BC Ltd. (“1061437”), a company owned and operated by CEO and a director of the Company, and 1132902 BC Ltd. (collectively, the “Consultants”), whereby the Consultants are entitled to 1,000,000 Shares each as the Company has successfully contracted with a Canadian national food retailer for the placement of Canutra Naturals Ltd.’s Whole Hemp Health product line on the retailer’s shelves. As a result, the Company issued 2,000,000 common shares on November 15, 2019 with a fair value of \$380,000 to the consultants.

**AGRAFLORA ORGANICS INTERNATIONAL INC. (Formerly PUF Ventures Inc.)**

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

Nine months ended September 30, 2019

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**21. SUBSEQUENT EVENTS (continued)**

- f) On November 20, 2019, the Company entered into a preferred supply agreement with Canadian consumer packaged goods broker and wholesaler, Red Phoenix International Trading Ltd. ("RPI"). Under the terms of the Supply Agreement, RPI will distribute the Company's portfolio of organic cannabis sativa seed oil infused CPGs, including its Whole Hemp Health organic lip balm, as well as its Edibles & Infusions hemp-derived gummy stock-keeping units to domestic big box food retailers.
- g) Subsequent to period end, the Company closed a non-brokered private placement offering of 28,750 unsecured convertible debentures for gross proceeds of \$28,750,000. The debentures bear interest at a rate of 10% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2019. The debentures mature on December 31, 2021.

The debentures will be convertible at the holder's option into: (i) that number of common shares of the Company calculated on the basis of the aggregate principal amount of the debentures being converted divided by the conversion price of \$0.30 per share (the "Conversion Price"); and (ii) a cash payment equal to the additional interest amount that such holder would have received if it had held the Debenture from the date of conversion to the maturity date. Holders converting their debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion.



**AGRAFLORA ORGANICS INTERNATIONAL INC.  
(FORMERLY PUF VENTURES INC.)**

**Management's Discussion and Analysis**

**For the Nine Months Ended September 30, 2019 and 2018**

**(Expressed in Canadian Dollars)**

**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
**(FORMERLY PUF VENTURES INC.)**  
**Management's Discussion and Analysis**  
**For the period ended September 30, 2019 and 2018**

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**Date: November 29, 2019**

**INTRODUCTION**

This Management's Discussion and Analysis ("**MD&A**") of the operating results and financial condition of AgraFlora Organics International Inc.(Formerly PUF Ventures Inc) ("**AGRA**" or the "**Company**") for the nine months ended September 30, 2019 should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes for the nine months ended September 30, 2019, which are prepared in accordance with International Financial Reporting Standards ("**IFRS**").

Effective November 14, 2018, the Company changed its name to "AgraFlora Organics International Inc." and is trading under the symbol AGRA.

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures, and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, are complete and reliable. The Company's board of directors (the "**Board**") follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board's Audit Committee meets with management quarterly to review the financial statements, the MD&A and to discuss other financial, operating, and internal control matters. The reader is encouraged to review the Company's statutory filing on [www.sedar.com](http://www.sedar.com).

This MD&A is prepared as at November 29, 2019. All dollar figures stated herein are expressed in Canadian dollars unless otherwise indicated.

Readers should use the information contained in this report in conjunction with all other disclosure documents including those filed on SEDAR at [www.sedar.com](http://www.sedar.com).

**Forward-Looking Statements**

Information set forth in this MD&A may involve forward-looking statements within the meaning of Canadian securities laws. These statements relate to future events or future performance and reflect management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue", "target" or the negative of these terms or other comparable terminology. Forward-looking statements in this MD&A include, but are not limited to: volatility of stock price and market conditions, regulatory risks, difficulty in forecasting, key personnel, limited operating history, competition, investment capital and market share, market uncertainty, additional capital requirements, management of growth, pricing policies, litigation, no dividend history. The risk factors described in this MD&A are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in the Company's forward-looking statements. In addition, any forward-looking statements represent the Company's estimates only as of the date of this MD&A and should not be relied upon as representing the Company's estimates as of any subsequent date. The material factors and assumptions that were applied in making the forward-looking statements in MD&A include:

- the Company's use of proceeds and business objectives and milestones and the anticipated time of execution, see "Use of Proceeds";
- the performance of the Company's business and operations;
- the intention to expand the business, operations and potential activities of the Company;
- the methods used by the Company to deliver cannabis;
- the projected increase in production capacity;
- the competitive conditions of the cannabis industry;
- the competitive and business strategies of the Company;
- the Company's anticipated operating cash requirements and future financing needs;
- the anticipated future gross revenues and profit margins of the Company's operations;

## **INTRODUCTION (CONTINUED)**

### **Forward-Looking Statements (continued)**

- the Company's expectations regarding its revenue, expenses and operations;
- impacts of potential litigation;
- the Company's intention to build brands and develop cannabis products targeted to specific segments of the market;
- the ongoing and proposed expansion of the Company's facilities, products or services, including associated costs and any applicable Health Canada licensing;
- the current political, legal and regulatory landscape surrounding medical and recreational cannabis and expected developments in any jurisdiction in which the Company operates or may operate;
- the receipt of any regulatory and stock exchange approvals required at any given time;
- the applicable laws, regulations and any amendments thereof;
- medical benefits, viability, safety, efficacy and dosing of cannabis;
- the expected growth in the number of patients;
- the expected number of grams of medical cannabis used by each patient;
- expectations with respect to the advancement and adoption of new product lines and ingredients;
- the acceptance by customers and the marketplace of new products and solutions;
- the ability to attract new customers and develop and maintain existing customers;
- expectations with respect to future production costs and capacity;
- expectations with respect to the renewal and/or extension of the Company's permits and licenses;
- the ability to protect, maintain and enforce the Company's intellectual property rights;
- the ability to successfully leverage current and future strategic partnerships and alliances;
- the ability to attract and retain personnel;
- anticipated labour and materials costs;
- the Company's competitive condition and expectations regarding competition, including pricing and demand expectations and the regulatory environment in which the Company operates; and
- anticipated trends and challenges in the Company's business and the markets and jurisdictions in which the Company operates or may operate.

The preceding list is not exhaustive of all possible factors. All factors should be considered carefully when making decisions with respect to the Company. Readers should not place undue reliance on the Company's forward-looking statements, as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that such forward-looking statements will materialize. Unless required by applicable securities laws the Issuer disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, see "Risk Factors".

While the Company considers these assumptions may be reasonable based on information currently available to it, these assumptions may prove to be incorrect. Actual results may vary from such forward-looking information for a variety of reasons, including but not limited to risks and uncertainties disclosed in the section titled "Risk Factors".

**AGRAFLORA ORGANICS INTERNATIONAL INC.**  
**(FORMERLY PUF VENTURES INC.)**  
**Management's Discussion and Analysis**  
**For the period ended September 30, 2019 and 2018**

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## **OVERVIEW**

The Company was incorporated on June 24, 2004 under the laws of the Province of British Columbia under incorporation number BC0698428. On July 20, 2004, the Company changed its name from 0698428 BC Ltd. to High Ridge Resources Inc. On January 1, 2010, the Company changed its name from High Ridge Resources Inc. to New High Ridge Resources Inc. On February 7, 2011, the Company changed its name from New High Ridge Resources Inc. to Newton Gold Corp. On November 7, 2013, the Company changed its name from Newton Gold Corp. to Chlormet Technologies, Inc. On November 13, 2015, the Company changed its name from Chlormet Technologies, Inc. to PUF Ventures Inc. On November 14, 2018, the Company changed its name from PUF Ventures Inc. to Agraflora Organics International Inc. as well as completed a five-for-one stock split of the issued and outstanding shares. All references to number of shares and per share amounts in this MD&A have been retroactively restated to reflect this stock split. The Company's head office and registered and records office is located at Suite 810 - 789 West Pender Street, Vancouver, British Columbia, V6C 1H2.

The Company trades on the Canadian Stock Exchange (the "CSE") under the symbol "AGRA". The Company also trades on the OTC Pink Sheets ("OTCPK") under the symbol "AGFAF" and the Frankfurt Stock Exchange under the symbol "PU3".

The Company is a vertically integrated cannabis company equipped with a robust portfolio of licensed upstream, downstream and product formulation assets. The Company owns and operates an ACMPR licensed indoor cultivation operation in London, ON, and controls a 70% interest in Propagation Service Canada and its large-scale, 2.2 million square foot greenhouse complex in Delta, B.C. The Company's Delta Greenhouse Complex is equipped with 2.2 million square feet of dedicated cultivation area under glass and is widely considered to be one of the most technically advanced and environmentally efficient greenhouse operations in the world. The Company is also retrofitting a 51,500-square-foot good manufacturing practice ("GMP") edibles manufacturing facility in Winnipeg, Manitoba (the "Winnipeg Edibles Facility"). The Company has a successful record of creating shareholder value and is actively pursuing other opportunities within the cannabis industry.

## **OVERALL PERFORMANCE**

During the period ended September 30, 2019, in preparation for the next phase of cannabis normalization, as well as the associated Regulations, the Company has executed on an assertive corporate acquisition stratagem, amassing a diverse portfolio of vertically integrated cannabis assets and industry partnerships; focused on the following mandates:

- Innovative derivative product manufacturing;
- Defendable cannabinoid-infused edibles, beverage and topical formulation methodologies;
- Diverse brand platforms and trademark aggregation;
- Finished cannabis form factors; and,
- Quality assurance/control of input product for R&D and derivative product development;

Culminating with the Company's recent acquisition of a suite of unique downstream and cannabinoid product formulation assets from Organic Flower Investments Group Inc. ("Organic Flower"), the Company now boasts the following upstream/downstream operations, partnerships, off-take agreements, exclusive licenses and asset exposure:

### **Propagation Services Canada**

Pursuant to the terms of an executed asset purchase and sale agreement between Organic Flower and the Company, the Company now controls 70% of PSC's flagship Delta Greenhouse Complex (the "Delta Facility"). The Company's investment in the Delta Greenhouse is widely considered to be one of the most technically advanced and environmentally-friendly greenhouse operations in the World, which boasts industry leading cultivation infrastructure including:

- Fully integrated on-site natural gas-powered power plant;
  - Providing ample heat and electricity, while repurposing carbon dioxide emissions to benefit the plants;

## **OVERALL PERFORMANCE (CONTINUED)**

### **Propagation Services Canada (continued)**

- Proprietary energy efficient air exchange;
- Advanced climate and humidity control management infrastructure;
- Ebb and flow watering systems to enhance complete irrigation recapture and water treatment; 1.5-million-gallon hot water storage tank configured to store energy produced during the day, for redistribution during non-peak hours, thereby increasing operational efficiencies and reducing associated energy costs; and,
- Multistage supplemental lighting augmented by natural sunlight to foster an optimized illumination equilibrium.

The Company continues to achieve material progress with regard to the retrofit and licensing of its bell weather Delta Greenhouse Complex. To date, the Company has deployed over C\$30,000,000 in plant, property and equipment expenditures at its Phase 1 Delta Facility retrofit in preparation for receipt of its standard cultivation license from Health Canada.

The Company's Delta Facility is second in size and magnitude only to the Smiths Falls facility owned by Canopy Growth Corp., the world's largest cannabis company. By way of additional comparison, the Company's Delta Facility is 100,000 square feet larger than Aurora Cannabis Inc.'s facility in Edmonton, Alberta and it is also more than 700,000 square feet larger than the current size of the Leamington facility owned by Aphria Inc.

The Company's internal forecasts indicate that upon receipt of its aforementioned standard cultivation license from Health Canada, the Company will become the fourth-largest licensed producer ("LP") in Canada by 2020 financed production metrics; strategically positioned in close proximity to Canada's largest cannabis economic centers: Toronto and Vancouver.

The Company's esteemed Delta Facility partners, the Houweling's Group, bring 40 years of greenhouse experience and agricultural expertise to the project, as well as established infrastructure with a replacement cost of circa C\$190 million. The Houweling's Group is a fully vertically integrated organization with a total of 8.4 million square feet of greenhouse space in Canada and the United States, and more than 200 employees. They have employee groups working in growing, harvesting, distribution, administration, information technology and finance. The Company plans to commence Phase 2 of the Delta Greenhouse Complex retrofit in December of 2019, which will include:

- 10 flower rooms with over one million square feet of canopy;
  - 40,000 square feet of EU-GMP postharvest/processing space;
- Equipped with ozone-rich drying rooms • Installation of an industrial kitchen; and,
- Workflow design to include commercial CO<sub>2</sub> and Ethanol extraction capabilities.

### **The Edibles and Infusions Joint Venture**

By way of an executed Asset Purchase Agreement (the "Agreement") with Organic Flower, the Company controls an 80% interest in The Edibles and Infusions Corp. ("Edibles and Infusions"), a joint venture ("JV") with one of North America's largest and most storied manufacturer and distributor of chocolate and sugar confectionary products. Upon successful receipt of appropriate Health Canada Licensing, the JV will produce an assort of both cannabinoid/terpene-infused products for medicinal, functional and adult use.

The Company's JV partner was established nearly a century ago and has since become North America's largest confectionary fruit slice manufacturer, supplying products to over 20,000 locations across North America, most prominently Costco and Wal-Mart.

Equipped with a roster of experienced chocolatiers and confectioners, as well as established industry relationships and best-in-class supply chain management infrastructure, the Company's JV partner currently manufactures and distributes several hundred unique stock keeping units ("SKUs").

## **OVERALL PERFORMANCE (CONTINUED)**

### **The Edibles and Infusions Joint Venture (continued)**

Subsequent to period end, the Company was awarded a 5-year cannabis research license from Health Canada under the Cannabis Regulations Act for the Winnipeg Edibles Facility. Upon receipt of appropriate Health Canada licensing, the Company will supply the JV with inputs for the edibles manufacturing process such as artisanal, ultra-premium dried cannabis flower, as well as premium cannabis trim from its Delta Greenhouse Complex and ACMPR licensed AAA Heidelberg facility.

Receipt of full-spectrum cannabinoid concentrates is expected post licensing to assist with product development and ancillary research and development activities. The Company has completed construction of its 750 square foot, pharmaceutical-grade research and development laboratory (the "R&D Laboratory") at the Winnipeg Edibles Facility.

The Company's R&D Laboratory boasts a comprehensive suite of made-to-order cannabinoid-testing and product formulation equipment, including:

- High Performance Liquid Chromatography ("HPLC");
- Microbiological testing instruments;
- Custom confectionery testing, manufacturing and origination/formulation technologies;
- Deposit throughput in excess of 1000 pieces of premium chocolates or gummy edibles per hour;
- Proprietary triple shot depositor capable of producing infused chocolate or liquid filled center in shell pieces, as well as a full vacuum pressure confectionery-cooking system.

The Company's Winnipeg Edibles Facility is also equipped with over 30,000 square feet of dedicated edibles production space, giving it the ability to formulate and mass produce cannabinoid-infused fruit/vegetable purees, which conform to the more rigorous Cannabis 2.0 regulations instilled by the Province of Quebec. This unique product development capability will permit the capture of defendable market share of the edibles, topicals and concentrates industry in Canada's second most populous province. Once activated, the Winnipeg Edibles Facility will be operated by a roster of third generation chocolatiers/confectioners and boasts state-of-the-art manufacturing equipment capable of producing an assortment of both cannabinoid/terpene-infused products for medicinal, functional and adult use.

### **Canutra Naturals Ltd.**

Pursuant to the terms of an executed asset purchase and sale agreement between Organic Flower and the Company, the Company now owns 100% of Canutra Naturals Ltd. ("Canutra"). Canutra manufactures and distributes premium personal care, cosmetics and cannabinoid-infused product lines including a suite of trusted consumer brands such as Whole Hemp Health; a Canadian all-natural, hand-made skin care line, formulated with 100-per-cent-Canadian organic hemp seed oil. Canutra markets its Whole Hemp Health products by way of brick-and-mortar retail outlets, Amazon Prime, as well as direct to consumer, through an integrated Shopify e-commerce platform.

Canutra owns and operates 76 acres of unzoned, arid agricultural land, including 1,000 feet of river frontage in New Brunswick. The New Brunswick campus, formerly a federally owned farm and research facility, boasts over 17,500 square feet of commercial-grade production facilities, as well as 12 separate free-standing structures. This acquisition equips the Company with robust cultivation, extraction, manufacturing and distribution capabilities from the company's New Brunswick facility.

In September 2019, Canutra has been awarded a cannabis research licence (the "Research License") by Health Canada under the Cannabis Regulations Act. The Research License permits Canutra to pursue the development of proprietary cannabis genetics and phenotypes.

Canutra continues to demonstrate its leadership with regards to cannabis-derived CPGs, due to its Health Canada awarded Research License and continued collaboration with UM. The company also continues to achieve material advancements throughout its IP development and aggregation initiatives, including:

- High CBD hemp cultivation techniques;
- Advanced extraction methodologies;



## **OVERALL PERFORMANCE (CONTINUED)**

### **Canutra Naturals Ltd. (continued)**

- Cultivar development;
- Inoculation formulations; and
- Proprietary cannabinoid profiles for future skin care product lines.

Subsequent to period end, the Company received a purchase order from Tobmar Newstands ("TN") for its Whole Hemp Health organic lip balm SKU. TN's purchase order and subsequent listing of a secondary SKU secures additional high visibility Canadian shelf space for the Company's expanding line of organic cannabis sativa seed oil infused consumer packaged goods ("CPGs").

### **AAA- Heidelberg**

AAA Heidelberg is a licensed cannabis cultivation facility under Health Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR"). The AAA Heidelberg facility is equipped with five partitioned flower rooms, affording the Company ample canopy earmarked for ultra-premium craft cannabis cultivation. The Company is presently working to import a catalogue of premium craft cannabis genetics into its AAA Heidelberg facility, under a one-time declaration from Health Canada. Upon completion of a test harvest, as well as the associated test crop submissions and approvals from Health Canada, the Company plans to apply for both sales and processing licences at its AAA Heidelberg craft cannabis facility; with the objective of producing finished cannabis form factors for domestic distribution including, soft gels, tinctures, distillates and THC oils.

### **Non-Alcoholic Cannabinoid-Infused Beers and Ciders Formulation**

Through an exclusive partnership agreement with a leading Toronto-based brewery (the "Brewhouse"), the Company holds claim to the exclusive formulation, manufacturing and distribution rights for all cannabinoid-infused beverages developed at said Brewhouse. This exclusive partnership provides the Company with preeminent exposure to a collective of domestic and global brewery partners, as well as further crystallizes a leading production platform for the Company's cannabinoid-infused carbonated beverage product offering, including:

- Non-alcoholic beers;
- Seltzers; and,
- Ready-to-drink ("RTDs") beverages.

Equipped with custom production equipment and a captive research, development and testing facility, as well as a state-of-the-art brewing infrastructure, the Brewhouse is armed with annual output capacity capabilities of 120,000 hectolitres ("hl"). By comparison, Canadian brewer Steam Whistle Brewing produces approximately 95,000 hl on an annualized basis.

The Brewhouse is nearing completion of major facility retrofit initiatives, which are projected to increase its output capacity to over 200,000 hl per annum. Upon completion of the retrofit, aggregate capital expenditures deployed on the Brewhouse build out will exceed \$20 million.

### **Nicorette-Inspired Sublingual Cannabinoid Product Line**

The Company has secured the exclusive North American rights to a proprietary manufacturing system, enabling the production of cannabinoid-infused therapeutic gum, chewable tablets and capsules. The Company's next-generation line of medicinal-use cannabis products is inspired by popular demand of Nicorette's branded therapeutic products, boasts the following:

- Proprietary dual-delivery technology: advanced patented processes reduce surface tensions, increase binding of molecules and enable homogenous mixing;

## **OVERALL PERFORMANCE (CONTINUED)**

### **Nicorette-Inspired Sublingual Cannabinoid Product Line (continued)**

- Rapid sublingual activation: optimized absorption methodologies facilitate a rapid onset within the first 15 minutes of application; and,
- Metabolism efficacy: metabolizes in the liver to create a more lasting effect.

### **Library of Patented Product Formulations**

The Company has also obtained the Canadian exclusive rights to a catalogue of cannabinoid-infused product formulations from a global formulation provider with over three decades of experience working with leading consumer product goods ("CPG") brands. The Company has engaged a roster of food engineers, nutritionists and scientists to optimize bioavailability, consistent dosing protocols and flavouring of the Company's licensed formulations.

The Company will continue to leverage its production and processing assets, while further activating its downstream activities by launching cannabinoid-infused beverages, edibles and personal care products; specifically formulated with patented micro diffusion technologies. These proprietary formulation and manufacturing processes are specifically adapted to ensuring consistent dose delivery, while maintaining taste and texture integrity.

### **Beverage Bottling and Downstream Distribution**

The Company holds claim to a complementary exclusive cannabinoid-infused beverage supply and distribution agreement with a Canadian bottling facility (the "Bottler" or the "Facility"). The Facility is strategically situated in the Greater Toronto Area ("GTA"), affording the Company unbridled access to the largest addressable Canadian marketplace. The Facility is equipped with state-of-the-art bottling equipment, configured to conduct rapid production runs, with minimal downtime for production line changeovers. Fully operational, the Facility has been granted the following industry certifications:

- Good manufacturing practices ("GMP");
- Canadian organic standards;
- Certified vegan;
- Fair trade certification ("ISO 17065"); and,
- Kosher facility status.

The Company will leverage the Facility to produce a suite of both cannabinoid-infused and functional beverages. The Facility is currently configured to produce formulations for water, coffee, tea, juice and carbonated sodas in a variety of formats, including glass bottles, polyethylene terephthalate ("PET") bottles and aluminum cans.

### **Trademark Portfolio**

Pursuant to the terms of an executed asset purchase and sale agreement between Organic Flower and the Company, the Company now owns 100% Trichome Cannabrands Inc. ("Trichome"), which has aggregated portfolio of 57 registered trademarks in Canada for a diversified range of cannabis products and services, including:

- Medicinal cannabis: for the relief of nerve pain, treatment of muscle spasms caused by multiple sclerosis, relief of nausea caused by chemotherapy, temporary relief of seizures and cannabis oil for the treatment of cancer;
- Recreational cannabis: on-line and retail sale of cannabis, cannabis-related products, derivatives of cannabis and natural health products containing cannabis;
- CBD-infused performance products: CBD oil for medical purposes, topical anesthetics, antibiotic cream and anti-inflammatory ointments;

## **OVERALL PERFORMANCE (CONTINUED)**

### **Trademark Portfolio (continued)**

- Packaging and vape products: packaging of cannabis, cannabis-related products, derivatives of cannabis and natural health products containing cannabis, and cannabis oil for electronic cigarettes; • Cosmetics: makeup, beauty care cosmetics, eye cream, body creams, massage creams, massage oils, skin care preparations, body powders, body oils, bath soap, moisturizing skin lotions, body sprays used as personal deodorants and fragrances, non-medicated bath salts, exfoliating scrubs for the body, and bath oils;
- Candy, chocolate and edibles: cannabis oil for food and edible oils, chocolate bars infused with cannabis, brownies containing marijuana, chocolate, and sugar confectionery; • Beverages and bottling: non-alcoholic fruit-based beverages, carbonated soft drinks, sports drinks, beverage flavorings, beverages made of coffee and tea;
- Cannabinoid infused beers and ciders: alcoholic-based beverages, alcoholic fruit beverages and alcoholic tea-based beverages.

The Company intends to leverage these registered trademarks throughout a wide array of corporate branding exercises.

### **THC Overdose Antidote**

The Company has been granted the Canadian exclusive sublicense (the "sublicense") for True Focus Canada's product suite and proprietary IP portfolio, including its patent pending 'THC Overdose Antidote'. The sublicense permits the exclusive domestic marketing, distribution and development of the aforementioned THC Overdose Antidote for a period of ten years. The Company will market and distribute True Focus into the company's 17,500 North American points of distribution. Delivered to the end-consumer through a pocket-sized, user-friendly spray bottle, True Focus's revolutionary formulations are to be ingested in a sublingual (under the tongue) manner.

True Focus boasts nutraceutical formulations, coupled with an intuitive delivery system designed to mitigate the negative side effects associated with excessive THC consumption. The aforementioned product formulations are considered patent pending by way of a U.S. Patent and Trademark Office (USPTO) patent application.

True Focus's patent-pending formulation offers a unique solution to alleviating undesirable symptoms associated with a THC overdose. The Company holds the exclusive Canadian True Focus sublicense, which permits the domestic marketing, distribution and development of True Focus's product suite and proprietary intellectual property portfolio.

### **Strategic Investments**

Over the past three quarters, the Company also made several key strategic investments below:

#### *Glow LifeTech Ltd.*

The Company jointly formed Glow LifeTech Ltd. with Relay Medical Corp. ("Relay") to identify and develop technologies within the global cannabis sector. The Company initially invested \$200,000 for 37.5% of interest in Glow LifeTech Ltd. On June 10, 2019, Glow Lifetech Ltd. closed a private placement and diluted the Company's interest to 23.4%. Relay is an evolving "Integrated MedTech Accelerator" headquartered in Toronto, Canada, acquiring early-stage technologies and inventions, advancing and preparing them for pre-commercial acquisitions in the HealthTech marketplace. The newly formed entity combines Relay's techno-commercial leadership with the Company's accumulated knowledge, expertise and access to cannabis industries across the sector. Glow LifeTech Ltd. will benefit from Relay's infrastructure, technical leadership and business knowledge for the research, vetting, product development and validation of innovative technologies and the Company will support the Company in the pursuit of technology opportunities in scientific validation, diagnostics, health & safety, screening, compliance and quality control/assurance within the cannabis industry.

## **OVERALL PERFORMANCE (CONTINUED)**

### **Strategic Investments (continued)**

#### *ICC International Cannabis Corp.*

During the period ended September 30, 2019, the Company partnered with International Cannabis Corp. ("ICC") to transfer the Company's portfolio of exotic, native Colombian cannabis genetics to ICC for international marketing and distribution purposes. The Companies genetics portfolio consists of rare, native cannabis strains from the regions of Valle del Cauca, Cauca, Magdalena and Antioquia in Colombia. Under the agreement, Pure Grow Medicinals S.A.S, the Company's wholly owned subsidiary, is transferring to ICC a library consisting of 20 unique strains that include both prominent tetrahydrocannabinol ("THC") and cannabidiol ("CBD") varieties, including highly sought-after strains such as: Caucana, Purpura, Medellin Gold, Maroc.

The Company also entered into a five-year commercial rights and off-take agreement with ICC whereby the Company will sell up to 10,000,000 kg of premium dried cannabis flower produced from its Delta Greenhouse Complex to ICC over the next five years. Subject to the terms of the commercial rights and off-take agreement, the Company may sell up to 20,000 kg of dried cannabis per annum over the duration of the initial term. As a result of this commercial rights and off-take agreement, the Company has committed to allocating 10% of the Delta Greenhouse Complex's cumulative flower footprint to ICC.

Further to the commercial rights and off-take agreement (the "Agreement"), the Company has entered into a complementary cooperation agreement (the "Co-Op Agreement"). Under the terms of the Co-Op Agreement, a party to the original Agreement has subscribed to a non-brokered private placement (the "Offering") at a 28.2% premium to the Company's five day VWAP of C\$0.234; for total proceeds of C\$2,000,000. In consideration for the Offering, the Company has agreed to defer payment (the "Deferred Payments") for the initial C\$2,000,000 purchase of dried cannabis flower, under the previously announced Agreement. Such Deferred Payments shall be repaid in equal portions of C\$250,000 across the subsequent C\$8,000,000 in anticipated dried cannabis flower purchases.

In connection with the Offering, the Company has issued 6,666,667 transferable special warrants (the "Special Warrants") to one purchaser at a price of C\$0.30 per Special Warrant. Each Special Warrant is convertible into units (the "Units") with each Unit consisting of one common share (the "Shares") of the Company and one transferable common share purchase warrant (the "Warrants"), with each Warrant entitling the holder thereof to purchase one additional Share of the Company at a price of C\$0.50 per Share for a period of 36 months from the date of issuance of the Warrants.

#### *Eurasia Infused Cosmetics Inc.*

The Company entered into a definitive agreement to acquire 50% of the issued and outstanding shares of Eurasia Infused Cosmetics Inc. Joint Venture ("Eurasia Infused"). The Company and Eurasia Infused will collaborate to integrate the Company's vertically integrated, farm-to-face CBD processing, manufacturing and distribution model into the Asia Pacific region.

Eurasia Infused, by way of a commercial concession with Hong Kong domiciled CBD Group Asia Limited ("CBD Group Asia") controls a distribution agreement for CBD and hemp-derived beauty and wellness products for the territories of People's Republic of China ("China") and Hong Kong Special Administrative Region. This distribution agreement extends to the Company's existing portfolio of CBD-infused and organic cannabis sativa seed oil derived product suite. Hong Kong domiciled CBD Group Asia Ltd., has previously distributed premium Canadian CPGs into China's largest retail chains and C-stores, including RT-Mart International Ltd. ("RT Mart") and Carrefour SA. RT Mart alone operates over 484 retail locations covering 233 cities and 29 provinces in China and generated \$20 billion in sales in 2018.

## **OVERALL PERFORMANCE (CONTINUED)**

### **Strategic Investments (continued)**

Subsequent to period end, Eurasia Infused issued the Company an initial purchase order to supply its organic cannabis sativa seed oil infused face serum and lip balm. This initial purchase order will secure high-visibility Asia Pacific shelf space for the Company's existing CPG product offering. The Company and CBD Group Asia have collaborated on a variety of product customization, branding and distribution initiatives, with the objective of tailoring the Company's product offering for rapid uptake into the Asian CPG markets. Eurasia's continuing CPG customization and distribution deliverables, culminating with this initial PO, include the following:

- Brand testing, focus groups and data mining initiatives;
- Successful YuShop Global (HK) Ltd. product listings for CBD-infused CPGs:
  - Active user footprint of over 500 million consumers; and
  - Permits immediate access to China/Hong Kong's burgeoning CBD-infused CPG marketplaces;
- National CPG listings, leveraging CBD Group Asia's high-traffic distribution channels, including the introduction of high-traffic retail channel partners, as well as 1,500 luxury health spas;
- Organic cannabis sativa certificate of analysis ("COA") authorization;
- Product and packaging customization;
- Development of a full-spectrum CBD facial serum, infused with hemp root oil;
- Initial three SKUs fully customized/import certified for the Chinese/Hong Kong marketplaces packaged for shipment from the Company's co-packer to fulfill POs;
- Architecture of a network of Chinese Canutra/Whole Hemp Health-branded pop-up shops, further expanding the Company's retail footprint and brand presence in an economical and contemporary manner; and
- Integration into CBD Group Asia's proprietary direct to customer Asian sales WeChat platform providing unencumbered daily access to 1.08 billion current WeChat customers.

Eurasia Infused is positioned to capitalize on current and future market trends in the rapidly expanding global cannabinoid-infused CPG space. Existing turnkey cultivation/manufacturing capabilities further bolster the Eurasia Infused's ability to swiftly expand the breadth of its current product line to more than 40 SKUs.

Eurasia Infused will work to integrate Cannessence, the Company's recently announced terpene-infused, organic cannabis sativa seed oil formulation, into its distribution channels. Cannessence when coupled with organic cannabis sativa seed oil, will boast a uniquely formulated terpene profile resulting in amplification of the activation of the endocannabinoid system (the "ECS"), optimization of cannabinoid uptake and standardization of pharmacological effects within the ECS of both humans and pets. Eurasia Infused anticipates that it will market its Cannessence product portfolio in capsule, topical and tincture format and aims to position Cannessence within the marketplace as an over-the-counter (OTC) substitute to conventional CBD.

### **The Good Company GmbH**

Subsequent to period end, the Company announced the acquisition of 100% of the issued and outstanding shares of The Good Company GmbH, the parent company of German European Union good distribution practice medical cannabis distributor, Farmako GmbH ("Farmako").

Farmako is a leading European medical cannabis distributor, headquartered in Frankfurt, Germany, with affiliated companies in the United Kingdom, Luxembourg and Denmark. Farmako is equipped with the following German and European industry certifications and distribution licenses, affording the company unparalleled access to Germany's exponentially growing medical cannabis marketplace. Farmako's German distribution network extends over 19,800 pharmacies and comprises an aggregate patient population of over 100,000 unique individuals.

The Company will pursue the processing of EU-GMP-compliant cannabis products from its flagship 2.2- million square foot Delta Facility for integration into Farmako's European distribution channels. EU-GMP certified cannabis products are eligible for import/export and sale in the European Union. European Good manufacturing practice (EU-GMP) certification is an internationally recognized system, mandated with ensuring all produced goods meet the highest consumer health and safety standard. Planned German distribution of cannabis products produced at its Delta facility, at a forecasted unit contribution of 80 cents per gram, affords the Company the opportunity to achieve unparalleled retail margins due to its seed-to-sale vertical integration.

## **OVERALL PERFORMANCE (CONTINUED)**

### *Supply Agreement with Distributor to Loblaws and Metro Supermarkets*

The Company has entered into a preferred supply agreement (the "Supply Agreement") with Canadian consumer packaged goods ("CPGs") broker and wholesaler, Red Phoenix International Trading Ltd. ("RPI"). Under the terms of the Supply Agreement, RPI will distribute the Company's portfolio of organic cannabis sativa seed oil infused CPGs, including its Whole Hemp Health ("WHH") organic lip balm, as well as its Edibles & Infusions hemp-derived gummy stock-keeping units ("SKUs") to domestic big box food retailers. RPI boasts wholesale distribution agreements with the following Tier 1 Canadian food retailers:

- Loblaws Inc.;
- Metro Inc.;
- Sobeys Inc.;
- The North West Company; and,
- Giant Tiger Stores Ltd.

The Company forecasts its Supply Agreement with RPI will accelerate its stock turn and sell-through metrics of associated organic cannabis sativa seed oil infused CPGs by a factor of three. Additionally, the Supply Agreement will augment the Company's pursuit to secure a critical mass of high visibility shelf space, whilst familiarizing consumers with its premium suite of cannabis 2.0 SKUs.

### *EuroLife Brands Inc.*

Subsequent to period end, the Company has entered into a Letter of Intent (the "LOI"), with EuroLife Brands Inc. ("EuroLife"). Under the terms of the LOI, the Companies will collaborate to curate custom evidence-based cannabis content and associated learning modules to be deployed across EuroLife's physician-sanctioned German cannabis education platform, Cannabis.de.

The integration of Cannabis.de into the Company's German vertically integrated medical/pharmaceutical ecosystem will afford the Company's existing German patients and pharmaceutical partners unbridled access to independent, physician-backed and educator-approved cannabis literature and learning modules. Cannabis.de leverages machine learning algorithms and artificial intelligence ("AI"), coupled with a suite of automation tools to contextualize and adapt to its users and deliver timely and relevant information, based on identified behaviors and interests.

The Company's exposure to a mounting patient population represents the critical mass required for the Companies to achieve defensible first-mover advantages within the German cannabis education marketplace, while initiating high visibility growth of its EU-GDP distribution channels. Additionally, the Company and EuroLife will deploy Cannabis.de's diverse analytical tool suite to assist with managing and measuring a host of key consumer data analytics, thus aggregating lucrative patient preference datasets to assist with further tailoring its product offering

## **Management Changes**

During the nine months ended September 30, 2019, Brandon Boddy replaced Derek Ivany as Chairman director and CEO, the Company appointed Brian O'Neill as a director of the Company, and Peter Nguyen replaced Chris Cherry as CFO of the Company.

## **Outlook**

Substantiated by ongoing discourse with industry experts and relevant policy makers, the Company remain optimistic that Health Canada's anticipated cannabidiol regulations will classify CBD as a natural health product, enabling widespread proliferation across Canada and unlocking hidden value within the Company's cannabis value chain. Upon enactment of these anticipated CBD regulations, the Company will look to introduce CBD-infused varieties of existing SKUs into already mature distribution channels.

## **OVERALL PERFORMANCE (CONTINUED)**

### **Outlook (continued)**

The Company's product strategy is centered on the delivery of CBD-based solutions to already primed targeted audiences, which are both known and trusted across our entire distribution footprint. As CBD continues its ubiquitous permeation of CPGs, the Company remains well equipped to capitalize on a shifting regulatory environment, while capturing material market share of Canada's adult-use arena.

Over the next quarter, the Company intends to continue vertical integration, with the following operating goals:

- Application and anticipated receipt of a Health Canada awarded Sales License;
- Application and anticipated receipt of a Health Canada awarded Processing License;
- Application and anticipated receipt of a Health Canada issued Export permit;
- Proposed on-site dispensary as per Alcohol and Gaming Commission of Ontario ("AGCO") regulations;
  - Potential 1,500,000-purchaser catchment area within a 90-minute radius
- Importation of a catalogue of premium craft cannabis genetics; Fully optimized production capabilities of circa 1,000,000 grams of ultra-premium dried craft cannabis flower, with potential production expansion based off surplus cultivation areas contemplated;
- Successful recapture of 225,000 grams of premium cannabis trim to be manufactured into ancillary value-added cannabis products;
- Successful harvest of inaugural ultra-premium craft cannabis crop; and,
- Proposed export of finished cannabis form factors to emerging marketplaces, including India and Thailand, achieving unit contribution of up to \$15 per gram.
- expand its platforms, with Germany being the first of many European market; with a population of over 80 million, European market is a key catalyst for the Company's strategic revenue growth in 2020.
- secure national listings of its Cannessence product portfolio through prominent, high-traffic distribution channels including: c-store, pharmacies, naturopathic clinics, salons/spas, as well as health and wellness retailers; integrate Cannessence in its 17,500 North American points of distribution.
- retrofit to seven of the non-core operating buildings at its Cannabis Campus.

Successful receipt of the above stated license would allow the Company to immediately engage in business-to-business ("B2B") sales to its strategic partners and/or other qualified license holders under the Cannabis Act and accompanying Cannabis Regulations. The Company's objective is to produce finished cannabis form factors for domestic distribution including, but not limited to high margin products such as soft gels, tinctures, distillates and THC oils. The Company also plans to conduct full analytical testing on terpene profiling and residual solvents for authorized clients upon application and receipt of appropriate licensing from Health Canada.

The Company will supply the Edibles and Infusions Corp. with inputs for the edibles manufacturing process such as artisanal, ultra-premium dried cannabis flower, as well as premium cannabis trim from its Delta Complex and ACMPR licensed AAA Heidelberg facility.

The Company is also contemplating establishing an on-site dispensary at the AAA Heidelberg facility, per pending Alcohol and Gaming Commission of Ontario ("AGCO") regulations, capitalizing on a potential 1.5 million consumer catchment area within a 90- minute radius. London, Ontario, is Canada's 11th largest metropolitan area and is tactically located at the nexus of Toronto, Ontario, Detroit, Michigan and Buffalo, New York, affording the Company a lucrative opportunity to capture a significant portion of the cannabis tourism marketplace.

In addition, the Company is in the process of finalizing product formulation, contract manufacturing and R&D agreements with various Canadian Licensed Producers ("LPs"). The Company forecasts that its R&D Laboratory will emerge as a hub for innovation, as well as set the industry's benchmark standard for the industrial-scale production of value-added cannabis products. The Company's R&D Laboratory will be fully operational upon receipt of Health Canada issued research and development license.

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**OVERALL PERFORMANCE (CONTINUED)**

**Outlook (continued)**

Overall, the Company's vertically integrated cannabis ecosystem will afford the Company the ability to capture material revenues from upstream cultivation, to downstream product formulation/manufacturing/extraction and end retail distribution.

**EQUITY TRANSACTIONS**

Subsequent to period end, the Company issued 1,250,000 common shares as the third allotment to a consultant with fair value of \$318,750 pursuant to a letter of intent (the "LOI").

Subsequent to period end, the Company closed a non-brokered private placement offering of 28,750 unsecured convertible debentures for gross proceeds of \$28,750,000. The debentures bear interest at a rate of 10% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2019. The debentures mature on December 31, 2021.

The debentures will be convertible at the holder's option into: (i) that number of common shares of the Company calculated on the basis of the aggregate principal amount of the debentures being converted divided by the conversion price of \$0.30 per share (the "Conversion Price"); and (ii) a cash payment equal to the additional interest amount that such holder would have received if it had held the Debenture from the date of conversion to the maturity date. Holders converting their debentures will receive accrued and unpaid interest thereon for the period from and including the date of the latest interest payment date to, but excluding, the date of conversion.

During the period ended September 30, 2019, the former CEO and president resigned from the Company. The Company issued 3,750,000 common shares pursuant to an option exercise for \$630,000 as departing compensation for past services.

On March 22, 2019, the Company closed a \$20,000,000 third tranche of the \$40,000,000 Equity Participation and Earn-In Agreement with DOCC and issued 44,582,040 common shares of the Company at a price of \$0.45 per share.

On April 25, 2019 the Company issued 20,588,235 common shares with a fair value of \$10,705,882 for the acquisition of 10% of PSC.

On April 25, 2019, the Company issued 10,000,000 common shares with a fair value of \$5,200,000 to key personnel, including related parties, who are assisting with PSC and the 2.2 million square foot greenhouse project located in Delta, British Columbia.

On April 25, 2019 the Company issued 281,960 common shares with a fair value of \$146,478 pursuant to a supply agreement entered into with Vendure Genetics Labs Inc. dated December 26, 2018 for the supply of certain cannabis plants and intellectual property rights.

On April 25, 2019 and June 26, 2019, the Company issued 1,250,000 and 1,250,000 common shares as the first and second allotment to a consultant with fair values of \$650,000 and \$525,000 respectively pursuant to a letter of intent (the "LOI"). As set out in the LOI, the Company agreed to issue a total aggregate of 5,000,000 common shares to the consultant with the remaining 2,500,000 common shares to be issued by December 25, 2019.

On May 28, 2019, the Company issued 2,000,000 common shares at a fair value of \$780,000 to a non-related party as transaction costs in connection with the commercial rights and offtake agreement entered into with ICC International Cannabis Corp.

On July 11, 2019, the Company issued 348,109,251 common shares with a fair value of \$71,863,907 and 13,054,097 common shares with a fair value of \$4,503,663 for the acquisition certain assets from OFIG.



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**EQUITY TRANSACTIONS (CONTINUED)**

On August 12, 2019, the Company issued 319,551 common shares with a fair value of \$94,267 to settle \$111,805 of debt for past consulting and other services provided, resulting in a gain on settlement of \$17,537.

On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of \$4,050,000 and 1,500,000 common shares with a fair value of \$405,000 for the acquisition of Eurasia.

During the period ended September 30, 2019, the Company issued 23,125,000 common shares on the exercise of options for proceeds of \$2,931,750. An amount of \$1,994,930 was transferred from option reserve to share capital on exercise.

During the period ended September 30, 2019, 13,147,700 common shares on the exercise of warrants for proceeds of \$1,051,816. An amount of \$7,955 was transferred from warrant reserve to share capital on exercise.

On October 18, 2018, the Company closed a \$12,500,000 first tranche of \$40,000,000 Equity Participation and Earn-In Agreement with Delta Organic Cannabis Corp. and issued 27,863,775 common shares of the Company at a price of \$0.448 per share.

On December 7, 2018, the Company closed a \$7,500,000 second tranche of the \$40,000,000 Equity Participation and Earn-In Agreement with DOCC. and issued 16,718,265 common shares of the Company at a price of \$0.448 per share.

During the year ended December 31, 2018, the Company issued 10,000,000 common shares with a fair value of \$1,460,000 for consulting services provided.

During year ended December 31, 2018 the Company issued 2,008,236 common shares with a fair value of \$351,441 to settle \$1,326,620 of debt, resulting in a gain on settlement of \$975,179.

During year ended December 31, 2018 the Company issued 12,500,000 common shares with fair value of \$2,187,500 to acquire the remaining outstanding shares of AAA-H, giving the Company 100% ownership of AAA-H.

During the year ended December 31, 2018, 25,405,150 warrants was exercised for proceed of \$1,691,076. An amount of \$35,136 was transferred from warrant reserve to share capital on exercise.

During the year ended December 31, 2018, 5,400,000 options was exercised for proceeds of \$371,200. An amount of \$275,559 was transferred from option reserve to share capital on exercise.

As at September 30, 2019, the Company had \$Nil in subscription receivable, compare to \$61,000 subscription received in December 31, 2018.

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**RESULTS OF OPERATIONS**

	Three month period ended September 30,		Nine month period ended September 30,	
	2019	2018	2019	2018
<b>EXPENSES</b>				
Professional fees	\$ 284,658	\$ 73,476	\$ 486,223	\$ 136,201
Consulting and management	1,375,595	1,282,013	9,782,490	2,444,412
Development and compliance	44,351	70,984	86,882	84,558
Corporate development	435,665	163,599	2,943,505	492,542
Amortization	380,499	-	393,763	-
Office	241,999	(690)	278,806	72,241
Regulatory and transfer agent fees	148,717	31,513	417,771	140,801
Share-based compensation	31,015,915	-	37,641,587	2,054,508
Transaction costs	3,545,179	-	4,325,179	-
Loss on foreign exchange	7,000	-	59,365	-
Distribution expenses	3,458,678	-	3,458,678	-
Finance and other costs	52,826	-	52,826	-
Production costs	4,841,323	-	4,841,323	-
Research and development	11,824,399	-	11,824,399	-
	(57,656,804)	(1,620,895)	(76,592,797)	(5,425,263)
<b>Other Items</b>				
Unrealized gain (loss) on marketable securities	(608,886)	(9,375)	(494,703)	(246,875)
Gain on revaluation of PSC	19,919,518	-	19,919,518	310,435
Gain on loss of control of Natures Hemp	-	310,435	-	-
Share of loss on equity accounted investments	(46,324)	-	(529,592)	-
Gain on settlement of debt	17,537	-	17,537	-
Interest income	19,638	-	19,638	-
Gain on sale of assets	352,560	-	678,097	-
<b>Net and comprehensive loss for the period</b>	<b>\$ (38,002,761)</b>	<b>\$ (1,319,835)</b>	<b>\$ (56,982,302)</b>	<b>\$ (5,361,703)</b>

**Results of Operations for the period ended September 30, 2019 and 2018**

During the nine and three-month period ended September 30, 2019 the Company completed a number of strategic cannabis acquisitions to grow its international operations. During the period ended September 30, 2019, the Company made several strategic acquisitions from Organic Flower that has strengthened the Company's position as a vertically integrated Company and will allow the Company to achieve high margins on the sales of cannabis and a controlling interest PSC, as well as expand the company's distribution capabilities. In general, for the comparative period, the Company had less activity than the current period. The previous period is therefore not indicative of the current period and therefore does not provide the reader with an appropriate benchmark to evaluate performance year over year.

During the period ended September 30, 2019, the Company incurred loss and comprehensive loss of \$56,982,302 compared to \$5,361,703 in the comparative period. Explanations of the nature of costs incurred, along with explanations for those changes in costs are discussed below for the nine months ended September 30, 2019. The analysis and the discussions for the nine and three months ended are similar:

- Professional fees increased to \$486,223 from \$136,201. During the nine month period ended, the Company has made a number of significant acquisitions during the year. More than half of these fees were incurred during the three-month period ended September 30, 2019 and correspond with the acquisition of assets from Organic Flower. During the due diligence phase with Organic Flower, the Company incurred legal, accounting, and other professional fees associated with these material acquisitions. As well, the Company incurred other unrelated professional fees related to the ongoing and general operations.

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**RESULTS OF OPERATIONS (CONTINUED)**

- Consulting fees increased to \$9,782,490 from \$2,444,412 as the Company hired consultants and various fees in connection with the acquisitions. The Company relies heavily on Consultants to achieve its goals on all facets of business and these consultants bring a wide range of expertise and connections to the Company. Consultants include Management, Advisors, Technical Support and other support roles. The Company owns two state of the art Cannabis production facilities in Canada and a significant portion of the expenditures relates to consulting fees paid to various vendors on the development of the project as well as negotiations for the other downstream assets purchased during the period.

Below is a break-down of the various consulting fees incurred by the Company:

	Period ended September 30, 2019		
	3 months	6 months	9 months
	\$	\$	\$
Management fees	140,000	4,165,438	4,305,438
Research and development consulting fees	92,890	149,198	242,088
Advisory and business development consulting fees	549,169	4,073,297	4,622,460
Marketing consulting fees	268,296	16,950	285,246
PSC consulting fees	320,420	-	320,240
Legal and advisory consulting fees	4,100	2,018	6,118
<b>Total</b>	<b>1,374,695</b>	<b>8,406,895</b>	<b>9,781,590</b>

- Corporate development fees increased to \$2,943,505 from \$492,542. Corporate development consists of expenses incurred to increase the Company's global brand awareness and presence in the Cannabis industry. Q2 and Q3 2019 was a crucial quarter for the Company, with the Company completing numerous acquisition's during and subsequent to the period.
- Amortization increased to \$393,763 from \$Nil. Due to consolidation with Propagation Services Canada's, the Company incurred the vast majority of amortization due to accounting treatment under IFRS 16 – leases, and the Company amortized its right-of-use lease asset by \$333,333. The remainder of amortization expense is from amortization of property plant and equipment.
- Share based compensation increased to \$37,641,587 from \$2,054,508 as the Company granted stock options to directors, officers and consultants and completed various acquisitions through share-based transactions. The Company uses share-based compensation as an alternative to incentivize the management term to return shareholder wealth and as an alternative form of payment to preserve cash.
- Transaction costs increased to \$4,325,179 from \$Nil, and consists primarily of non cash transactions, and solely relate to finders common shares issued pursuant to the acquisition of certain Organic Flower assets.
- Distribution expense of \$3,458,678 consist of certain assets acquired that do not meet the definition of an asset under IFRS standards. However, the Company does note that distribution is an essential and vital part to the Company's success.
- The Company entered into a commercial rights and offtake agreement with ICC and in consideration for facilitating the executive of the Offtake Agreement, the Company issued 2,000,000 common shares with a fair value of \$780,000 to an arm's length third party as transaction costs. The Company did not incur any transaction costs in 2018. In addition, the Company incurred research and development costs of \$11,824,399 and consist of research and development fees incurred via the acquisition of certain Organic Flower assets.
- The Company incurred production cost of \$4,841,323 and arises from the acquisition of 11353675 Canada Corp ("11353675"). 11353675 is partied to an exclusive partnership agreement with a Toronto-based brewerh to formulate, manufacture and istribute all cannabinoid infused beverages developed by the brewery.
- The Company recognized an unrealized loss on marketable securities of \$494,703 (2018 - \$246,875) and is primarily attributed to a significant downtown in the cannabis market for the period ended September 30, 2019.
- Previous to obtaining a 70 % interest in Propagation Services Canada, the Company accounted for PSC using the equity method, and recognized a loss of \$529,592. The Company also revalued investment in PSC prior to consolidation and recognized a gain on revaluation of 19,919,518.
- During the period ended September 30, 2019, the Company sold certain investments and recognized a gain on sale of investment of \$678,097.

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**Summary of Quarterly Results**

The following table sets forth selected quarterly financial information for each of the last eight most recently completed quarters. This information is derived from audited financial statements prepared by management and unaudited interim condensed consolidated financial statements. The information is reported in accordance with IFRS and expressed in Canadian Dollars unless otherwise stated.

	<b>Qtr 3</b>	<b>2019</b>	<b>Qtr 1</b>	<b>2018</b>
	<b>\$</b>	<b>Qtr 2</b>	<b>\$</b>	<b>Qtr 4</b>
		<b>\$</b>		<b>\$</b>
Revenue	-	-	-	-
Total assets	162,666,863	60,277,480	51,015,985	29,994,593
Long term liabilities	1,555,098	-	-	-
Net Loss	(38,002,761)	(12,323,239)	(6,656,302)	(458,515)
Basic and diluted loss per share	(0.05)	(0.03)	(0.02)	(0.00)

  

	<b>Qtr 3</b>	<b>2018</b>	<b>Qtr 1</b>	<b>2017</b>
	<b>\$</b>	<b>Qtr 2</b>	<b>\$</b>	<b>Qtr 4</b>
		<b>\$</b>		<b>\$</b>
Revenue	-	-	-	-
Total assets	8,242,349	9,162,464	8,599,768	9,076,997
Long term liabilities	-	-	-	-
Net Loss	(1,319,835)	(1,144,329)	(2,897,539)	(1,021,133)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.04)

The amount and timing of expenses and availability of capital resources vary substantially from quarter to quarter, depending on the level of activities being undertaken at any time and the availability of funding from investors or collaboration partners. During Q1 and Q2 2019, the Company was funding for all the operations of the 2,200,000 sq. ft. greenhouse complex in Delta, BC and closed the acquisition of assets from Organic Flower during the nine-month period ended. Assets increased as the Company completed acquisition's during the period, increasing the overall value of investments, marketable securities, and prepaid deposits. Furthermore, the Company updated its management and paid former management members departing compensation for their past services in Q2 2019. Net loss in Q3 2019 increased significantly from Q2 2019 due to primarily non cash transactions, such research and development of \$11,824,399, production cost of \$4,841,323, distribution expense of \$3,458,678 and share based compensation of \$31,015,915. These expenses were offset upon recognition of an unrealized gain on marketable securities of \$19,310,632.

**LIQUIDITY**

**Liquidity and Capital Resources**

The financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. Continuing operations, as intended, are dependent on management's ability to raise required funding through future equity issuances, its ability to execute the Company's business interests and develop profitable operations or a combination thereof, which is not assured, given today's volatile and uncertain financial markets. The Company may revise the Company's business programs depending on its working capital position.

The Company has financed its operations to date through the issuance of common shares.

	<b>September 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Working capital	12,638,526	11,071,721
Liabilities	3,773,186	324,632
Deficit	(78,914,125)	(22,279,489)

## **LIQUIDITY (continued)**

### **Liquidity and Capital Resources (continued)**

Other than the above-mentioned current liabilities, the Company has no short-term capital spending requirements and future plans and expectations are based on the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. There can be no assurance that the Company will be able to obtain adequate financing in the future or if available that such financing will be on acceptable terms. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

The Company's future revenues, if any, are expected to be from the sale of hemp and cannabis and their related derivatives. The economics of developing and producing cannabis are affected by many factors including the cost of operations, variations in the quality of cannabis, and the price of cannabis and related derivatives. There is no guarantee that the Company will be able to successfully develop its production facilities and distribution channels.

### **Liquidity and Capital Resources – Cash Flow**

#### **Operating Activities:**

During the period ended September 30, 2019, \$8,803,754 (2018 - \$3,042,479) cash was used in operating activities. This consisted mainly of cash paid for consulting, corporate development, due diligence and day to day expenditures related to the various acquisitions completed during the period. Extensive due diligence was performed over the course of the nine month period for the acquisitions completed and the Company notes the overall change in the market place.

#### **Financing Activities:**

During the period ended September 30, 2019, \$23,983,566 (2018 - \$1,382,611) of cash was provided by financing activities. The Company raised \$20,000,000 pursuant to an earn-in agreement with DOCC (2018 - \$Nil), exercised warrants for gross proceeds of \$1,051,816 (2018 - \$990,036) and exercised stock options for gross proceeds of \$2,931,750 (2018 - \$300,700). Subsequent to period end, the Company completed a private placement offering consisting of 28,750 unsecured convertible debentures with an aggregate face value of \$1,000 per debenture for gross proceeds of \$28,750,000.

#### **Investing Activities:**

During the period ended September 30, 2019, \$24,706,217 (2018 - \$835,938) was used in investing activities. This primarily consists of payments made on investments made in PSC, Best Cannabis Products Inc., Glow Lifetech Ltd and other marketable securities. The Company is also working on funding the needs of the Company's subsidiaries.

Management's current strategy is to continue vertical integration through acquisition and partnership with different companies. The Organic Flower acquisition in Q2 and Q3 2019 has made the company truly vertically integrated and will allow the Company to achieve high margins on the sales of cannabis as well as expand the company's distribution capabilities. Edible prices generate extremely attractive margins and this market segment will allow the company to be very profitable. The edibles industry in the US and Canada is expected to double in the next 3 years and the Company through the Organic Flower acquisition now has assets in every part of the value chain. The Company will also issue shares to raise funds as necessary.

In the event that proceeds from any future financings are insufficient to cover planned expenditures, Management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations.

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**LIQUIDITY (CONTINUED)**

These financial statements do not reflect any adjustments related to the recoverability and classification of assets or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

**OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements that would potentially affect current or future operations or the financial condition of the Company.

**PROPOSED TRANSACTIONS**

The Company does not currently have any proposed transactions approved by the Board of Directors. All current transactions are fully disclosed in the interim consolidated financial statements for the period ended September 30, 2019.

## **INVESTOR RELATIONS**

The Company has not entered into any investor relations contracts and all investor relation activity is carried out by directors and officers of the Company.

## **COMMITMENTS**

During the period ended September 30, 2019, the Company entered into Supply Agreement with Vendure Genetics Labs Inc. ("Vendure") to purchase from Vendure certain plants, plant matter, related plant-based products and Vendure's right, title and interest, including the intellectual property rights in the products for a purchase price of \$200,000 (paid) and 281,690 common shares (issued with a fair value of \$146,478). Under the agreement, the Company is committed to issue a further \$200,00 worth of common shares at the time of awarding Cannabis Cultivation license, and a further number of shares equal to \$150,000 per year on each of March 31, 2020, March 31, 2021, March 31, 2022, and March 31, 2023.

## **CONTINGENT LIABILITY**

On May 18, 2011, the Company received an order granted by a court in Lima, Peru indicating that the Company is responsible for a debt of US\$209,403 incurred by a former subsidiary of the Company. The Company did not receive notice of the Peruvian legal proceedings and is seeking advice concerning an application to set aside the order. The Company retained Peruvian legal counsel who advised that the Company is not responsible for this obligation.

The most recent contact from Peru indicates that the order has been dropped but the Company has not received formal notice of such release. No amounts have been recorded in the Company's books and records regarding this issue.

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**RELATED PARTY TRANSACTIONS**

The Directors and Executive Officers of the Company as of the date of this report are as follows:

Brandon Boddy	CEO and Chairman
Peter Nguyen	CFO
Jan Urata	Corporate Secretary
Brian O'Neill	Director
Jerry Habuda	Director
Joseph Perino	Director

The Company has identified the directors and senior officers as key management personnel. The following table lists the compensation costs paid directly or to companies controlled by key management personnel for the nine months ended September 30, 2019 and 2018:

<b>Nine months ended September 30, 2019</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based Compensation</b>
Cherry Consulting Ltd	\$ 59,955	\$ 70,355
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	3,775,483	89,128
Clairewood Partners / David Parry	230,000	678,127
Christopher Hornung	90,000	161,956
Jerry Habuda	-	98,293
Brian O'Neill / O'Neill Law LLP	19,340	158,385
Joseph Perino	-	98,293
Jan Urata / Take It Public Services Inc.	85,200	18,449
Peter Nguyen / 1183877 BC Ltd	15,000	-
Brandon Boddy/ 1061437 BC Ltd	150,000	1,005,385
	<b>\$ 4,424,978</b>	<b>\$2,378,371</b>

<b>Nine months ended September 30, 2018</b>		
	<b>Consulting and Management Fees</b>	<b>Share-based compensation</b>
Christopher Hornung	\$ -	\$ -
Cherry Consulting Ltd	18,600	-
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	98,000	617,898
FourOneSix Inc.	125,000	308,949
Clairewood Partners / David Parry	30,250	617,898
	<b>\$ 271,850</b>	<b>\$ 1,544,745</b>

Amounts due to and due from former related parties are unsecured, non-interest bearing and due on demand. At September 30, 2019, \$275,799 (December 31, 2018 - \$69,275) is owing to current and former related parties for unpaid fees which are included in accounts payable and accrued liabilities.



## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Fair value of financial instruments**

The carrying values of cash, amounts receivable, advances to related parties, loans receivable, accounts payable and accrued liabilities, and advances from related parties approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### **Financial risk management**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

The loan receivable exposes the Company to credit risk and the Company has limited this exposure by securing one of the loans with collateral; and the other loan is unsecured.

#### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with the construction of its cannabis facilities in Ontario and British Columbia. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at September 30, 2019 and expected cash flows for the next 12 months are sufficient to fund the Company's ongoing operational needs. The Company will need additional funding through equity or debt financing, or a combination thereof, to complete its facilities. Subsequent to period, the Company completed a private placement offering consisting of 28,750 unsecured convertible debentures with an aggregate face value of \$1,000 per debenture for gross proceeds of \$28,750,000. The convertible debenture private placement will alleviate strain on any potential liquidity strain moving forward.

#### ***Market risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

#### ***Interest rate risk***

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates. The Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and current financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

### ***Foreign currency risk***

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. The Company does not have significant items in other currencies.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk.

### ***Capital risk management***

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders. The availability of new capital will depend on many factors including positive stock market conditions, and the experience of management. The Company is not subject to any external covenants on its capital.

## **ADDITIONAL SHARE INFORMATION**

As at the date of this MD&A, the Company had 930,072,547 common shares outstanding, 130,654,776 warrants outstanding with exercise prices ranging from \$0.05 to \$0.65 and expiring at various dates to August 21, 2023 and 71,940,000 stock options outstanding with exercise prices ranging from \$0.128 to \$0.55 and expiring at various dates to August 1, 2024.

## **NEW SIGNIFICANT ACCOUNTING POLICIES**

### **IFRS 16 – Leases**

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which replaces IAS 17, Leases ("IAS 17") and related interpretations. The standard introduces a single lessee accounting model and requires lessees to recognize assets and liabilities for all leases with a term exceeding 12 months, unless the underlying asset is insignificant. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as operating or finance, with lessor accounting remaining substantially unchanged from the preceding guidance under IAS 17. The Company adopted the standard on January 1, 2019. The Company did not have any leased properties in previous years, so the adoption of IFRS 16 has no impact on the beginning balances. The adoption of IFRS 16 has resulted in:

As a result of adopting IFRS 16, the Company updated its lease accounting policies as follows:

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease is recognized as a right-of-use asset and corresponding liability at the commencement date. Each lease payment included in the lease liability is apportioned between the repayment of the liability and a finance cost. The finance cost is recognized in "finance and other costs" in the condensed consolidated interim statement of comprehensive (loss) income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. Lease liabilities represent the net present value of fixed lease payments (including in-substance fixed payments); variable lease payments based on an index, rate, or subject to a fair market value renewal condition; amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if it is probable that the lessee will exercise that option.

The Company's lease liability is recognized net of lease incentives receivable. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the lessee's incremental borrowing rate. The period over which the lease payments are discounted is the expected lease term, including renewal and termination options that the Company is reasonably certain to exercise.

**NEW SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**IFRS 16 – Leases (continued)**

Payments associated with short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis in general and administration and sales and marketing expense in the condensed consolidated interim statement of comprehensive (loss) income. Short term leases are defined as leases with a lease term of 12 months or less.

**OTHER RISKS AND UNCERTAINTIES**

In conducting its business, the Company is subject to a number of other risks and uncertainties that could have a material adverse effect on the Company's business prospects or financial condition that could result in a delay or indefinite postponement in the development of the Company's interests.

**Going concern**

The Company's 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 foreseeable future. The continuing operations of the Company are dependent upon its ability to obtain the necessary financing to meet its on-going commitments.

**Risks Related to the Company's Business**

This section discusses factors relating to the business of Company that should be considered by both existing and potential investors. The information in this section is intended to serve as an overview and should not be considered comprehensive and the Company may face risks and uncertainties not discussed in this section, or not currently known to us, or that we deem to be immaterial. All risks to the Company's business have the potential to influence its operations in a materially adverse manner.

## **OTHER RISKS AND UNCERTAINTIES (CONTINUED)**

### **Reliance on Licensing**

The ability of the Company to continue its business of growth, storage and distribution of medical marijuana is dependent on the good standing of all licenses, including the licenses to produce and sell cannabis and hemp derivatives, and adherence to all regulatory requirements related to such activities. Any failure to comply with the terms of the licenses, or to renew the licenses after their expiry dates, would have a material adverse impact on the financial condition and operations of the business of the Company.

Although the Company believes that it will meet the requirements of future extensions or renewals of the licenses, there can be no assurance that the regulating bodies will extend or renew the licenses, or if extended or renewed, that they will be extended or renewed on the same or similar terms. Should the regulatory bodies not extend or renew the licenses, or should they renew the licenses on different terms, the business, financial condition and operating results of the Company would be materially adversely affected.

### **Change in Law, Regulations and Guidelines**

The Company's business is subject to a variety of laws, regulations and guidelines relating to marketing, distribution, cultivation, management and sale and disposal of medical marijuana but also laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines may cause adverse effects to the Company's operations. The Liberal Party of Canada, which has formed the current federal Government of Canada, has made electoral commitments to legalize, regulate and tax recreational cannabis use in Canada. On April 13, 2017, the Government of Canada introduced the Cannabis Act. On June 19, 2018, Prime Minister Justin Trudeau announced that the Cannabis Act and its regulations will come into force in Canada on October 17, 2018, in order to provide the provinces and territories time to prepare for retail sales. The Cannabis Act passed its final legislative step and received Royal Assent on June 21, 2018. The legislative framework pertaining to the Canadian recreational cannabis market will be subject to significant provincial and territorial regulation.

### **Regulatory Risk**

Achievement of the Company's business objectives are contingent, in part, upon compliance with the regulatory requirements, enacted by these government authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by government authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the Company's business, results of operation and financial condition.

### **Realization of Growth Targets**

The Company's ability to produce marijuana is affected by a number of factors, including plant design errors, non-performance by third party contractors, increases in materials or labour costs, construction performance falling below expected levels of output or efficiency, environmental pollution, contractor or operator errors, breakdowns, aging or failure of equipment or processes, labour disputes, as well as factors specifically related to indoor agricultural practices, such as reliance on provision of energy and utilities to the facility, and potential impacts of major incidents or catastrophic events on the facility, such as fires, explosions, earthquakes or storms.

### **Limited Operating History and No Assurance of Profitability**

The Company is subject to all of the business risks and uncertainties associated with any early stage enterprise, including under-capitalization, cash shortages, limitation with respect to personnel, financial and other resources, and lack of revenues. The Company has incurred operating losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future.

## **OTHER RISKS AND UNCERTAINTIES (CONTINUED)**

### **Limited Operating History and No Assurance of Profitability (continued)**

In addition, the Company expects to continue to increase operating expenses as it implements initiatives to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that the Company will be successful in achieving a return on shareholders' investments and the likelihood of success must be considered in light of the early stage of operations.

### **Unfavourable Publicity or Consumer Perception**

The success of the medical marijuana industry may be significantly influenced by the public's perception of marijuana's medicinal applications. Medical marijuana is a controversial topic, and there is no guarantee that future scientific research, publicity, regulations, medical opinion and public opinion relating to medical marijuana will be favourable. The medical marijuana industry is an early-stage business that is constantly evolving with no guarantee of viability. The market for medical marijuana is uncertain, and any adverse or negative publicity, scientific research, limiting regulations, medical opinion and public opinion relating to the consumption of medical marijuana may have a material adverse effect on our operational results, consumer base and financial results.

### **Additional Financing**

There is no guarantee that the Company will be able to execute on its strategy. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business strategy or the Company ceasing to carry on business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other Companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Debt financings may contain provisions, which, if breached, may entitle lenders to accelerate repayment of loans and there is no assurance that the Company would be able to repay such loans in such an event or prevent the enforcement of security granted pursuant to such debt financing. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

### **Uninsured or Uninsurable Risk**

The Company may be subject to liability for risks against which it cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's normal business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

### **Key Personnel**

The Company's success will depend on its directors' and officers' ability to develop and execute on the Company's business strategies and manage its ongoing operations, and on the Company's ability to attract and retain key quality assurance, scientific, sales, public relations and marketing staff or consultants now that production and selling operations have begun. The loss of any key personnel or the inability to find and retain new key persons could have a material adverse effect on the Company's business. Competition for qualified technical, sales and marketing staff, as well as officers and directors can be intense, and no assurance can be provided that the Company will be able to attract or retain key personnel in the future, which may adversely impact the Company's operations.

## **OTHER RISKS AND UNCERTAINTIES (CONTINUED)**

### **Strategic Alliances**

The Company currently has, and may in the future enter into, strategic alliances with third parties that the Company believes will complement or augment its existing business. The Company's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic alliances could present unforeseen integration obstacles or costs, may not enhance our business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that the Company's existing strategic alliances will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

### **New Product Development**

The medical cannabis industry is, and the recreational cannabis industry will be, in its early stages of development and it is likely that the Company, and its competitors, will seek to introduce new products in the future. In attempting to keep pace with any new market developments, the Company may need to expend significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company. As well, the Company may be required to obtain additional regulatory approvals from Health Canada and any other applicable regulatory authority, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

### **Litigation**

The Company may become party to litigation, mediation and/or arbitration from time to time in the ordinary course of business which could adversely affect its business. Monitoring and defending against legal actions, whether or not meritorious, can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. In addition, legal fees and costs incurred in connection with such activities may be significant and we could, in the future, be subject to judgments or enter into settlements of claims for significant monetary damages. While the Company has insurance that may cover the costs and awards of certain types of litigation, the amount of insurance may not be sufficient to cover any costs or awards. Substantial litigation costs or an adverse result in any litigation may adversely impact the Company's business, operating results or financial condition.

## **OTHER RISKS AND UNCERTAINTIES (CONTINUED)**

### **Agricultural Operations**

Since the Company's business will revolve mainly around the growth of medical marijuana, an agricultural product, the risks inherent with agricultural businesses will apply. Such risks may include disease and insect pests, among others. Although the Company expects to grow its product in a climate controlled, monitored, indoor location, there is no guarantee that changes in outside weather and climate will not adversely affect production. Further, any rise in energy costs may have a material adverse effect on the Company's ability to produce medical marijuana.

### **Transportation Disruptions**

The Company will depend on fast, cost-effective and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier service used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

### **Fluctuating Prices of Raw Materials**

The Company's revenues will be derived from the production, sale and distribution of marijuana. The price of production, sale and distribution of marijuana will fluctuate widely due to how young the marijuana industry is and is affected by numerous factors beyond the Company's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of product produced by the Company and, therefore, the economic viability of any of the Company's business, cannot accurately be predicted.

### **Political and Economic Instability**

The Company may be affected by possible political or economic instability. The risks include, but are not limited to, terrorism, military repression, extreme fluctuations in currency exchange rates and high rates of inflation. Changes in medicine and agriculture development or investment policies or shifts in political attitude in certain countries may adversely affect the Company's business. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, distribution, price controls, export controls, income taxes, expropriation of property, maintenance of assets, environmental legislation, land use, land claims of local people and water use. The effect of these factors cannot be accurately predicted.

### **Growth Expansion Efforts**

There is no guarantee that the Company's intentions to acquire and/or construct additional cannabis production and manufacturing facilities in Canada and in other jurisdictions with federal legal cannabis markets, and to expand the Company's marketing and sales initiatives will be successful. Any such activities will require, among other things, various regulatory approvals, licenses and permits and there is no guarantee that all required approvals, licenses and permits will be obtained in a timely fashion or at all. There is also no guarantee that the Company will be able to complete any of the foregoing activities as anticipated or at all. The failure of the Company to successfully execute its expansion strategy (including receiving required regulatory approvals and permits) could adversely affect the Company's business, financial condition and results of operations and may result in the Company failing to meet anticipated or future demand for its cannabis-based pharmaceutical products, when and if it arises. Moreover, actual costs for construction may exceed the Company's budgets. As a result of construction delays, cost overruns, changes in market circumstances or other factors, the Company may not be able to achieve the intended economic benefits from the construction of the new facilities, which in turn may materially and adversely affect its business, prospects, financial condition and results of operations

## **OTHER RISKS AND UNCERTAINTIES (CONTINUED)**

### **Execution of Future Acquisitions or Dispositions**

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Company's operations, and (vi) loss or reduction of control over certain of the Company's assets. The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the results of operations, business prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

### **Market Risk for Securities**

The market price for the Common Shares of the Company could be subject to wide fluctuations. Factors such as commodity prices, government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of the Company. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

### **Competition**

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

Because of the early stage of the industry in which the Company intends to operate, the Company expects to face additional competition from new entrants. If the number of users of medical marijuana in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To be competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially affect the business, financial condition and results of operations of the Company.

### **Global Economy**

An economic downturn of global capital markets has been shown to make the raising of capital by equity or debt financing more difficult. The Company will be dependent upon the capital markets to raise additional financing in the future, while it establishes a user base for its products. As such, the Company is subject to liquidity risks in meeting its development and future operating cost requirements in instances where cash positions are unable to be maintained or appropriate financing is unavailable. These factors may impact the Company's ability to raise equity or obtain loans and other credit facilities in the future and on terms favorable to the Company and its management. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on the Company's operations and the trading price of the Company's shares on the Exchange.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company can be found on the SEDAR at [www.sedar.com](http://www.sedar.com).