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

Condensed Interim Consolidated Financial Statements
Six Months Ended June 30, 2019

(Expressed in Canadian Dollars)

(Unaudited – prepared by management)

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

	Notes	June 30, 2019	December 31, 2018
ASSETS			
Current assets			
Cash		$ 11,689,585	$ 10,718,888
Loan receivable	6	258,303	253,333
Receivable	5	423,611	253,509
Marketable securities	4	2,717,907	21,875
Prepaids and deposits	7	3,693,730	148,748
		18,783,136	11,396,353
Investments	9,10	34,342,803	11,656,240
Property and equipment	8	1,800,640	1,591,099
Intangible asset	9	5,350,901	5,350,901
TOTAL ASSETS		**$ 60,277,480**	**$ 29,994,593**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12	$ 959,961	$ 324,632
TOTAL CURRENT LIABILITIES		**959,961**	**324,632**
SHAREHOLDERS' EQUITY			
Share capital	13	92,169,659	48,624,710
Subscriptions receivable	13	-	(61,000)
Reserves	13	8,355,509	3,385,740
Deficit		(41,207,649)	(22,279,489)
TOTAL SHAREHOLDERS' EQUITY		**59,317,519**	**29,669,961**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 60,277,480**	**$ 29,994,593**

Nature and continuance of operations (Note 1)
Subsequent events (Note 19)

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 June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
EXPENSES				
Professional	$ 134,494	$ 41,340	$ 201,565	$ 62,725
Consulting and management	7,976,340	666,375	8,406,895	1,162,399
Development and compliance	42,531	38,098	42,531	44,392
Corporate development	1,439,494	163,331	2,507,840	298,125
Amortization	6,634	-	13,264	-
Office and sundry	19,054	41,510	36,807	72,931
Regulatory and transfer agent fees	251,332	62,425	269,054	109,288
Share-based compensation (Note 13)	1,661,595	-	6,625,672	2,054,508
Transaction costs (Note 4)	780,000	-	780,000	-
Loss on foreign exchange	52,365	-	52,365	-
	(12,363,839)	(1,013,079)	(18,935,993)	(3,804,368)
Other Items				
Unrealized gain (loss) on marketable securities (Note 4)	95,433	(131,250)	114,183	(237,500)
Share of loss on equity accounted investments (Notes 11)	(380,370)	-	(483,268)	-
Gain on sale of assets (Note 4)	325,537	-	325,537	-
Net and comprehensive loss for the period	**$ (12,323,239)**	**$ (1,144,329)**	**$ (18,979,541)**	**$ (4,041,868)**
Net and comprehensive loss attributable to:				
Shareholders of Agraflora Organics International Inc.	$ (12,323,239)	$ (1,103,536)	$ (18,979,541)	$ (3,908,939)
Non-controlling interests	-	(40,793)	-	(132,929)
	$ (12,323,239)	**$ (1,144,329)**	**$ (18,979,541)**	**$ (4,041,868)**
Net loss per share – basic and diluted	**$ (0.03)**	**$ (0.00)**	**$ (0.04)**	**$ (0.01)**
Weighted average number of common shares outstanding	**475,229,890**	**292,715,685**	**434,035,177**	**290,177,130**

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
Balance at December 31, 2017	**276,052,890**	**$ 22,252,798**	**$ 149,200**	**$ 809,65**	**$ 855,963**	**$ 920,305**	**$ (17,384,754)**	**$ (37,500)**	**$ 7,565,669**
Net and comprehensive loss for the period	-	-	-	-	-	-	(3,804,368)	(237,500)	(4,041,868)
Subscriptions received	-	-	840,800	-	-	-	-	-	840,800
Non-controlling interest on consolidation of AAA-H	-	-	-	-	-	(132,929)	-	-	(132,929)
Options exercised	3,900,000	300,700	-	-	-	-	-	-	300,700
Warrants exercised	14,654,650	990,036	-	-	-	-	-	-	990,036
Share-based compensation	-	-	-	2,054,508	-	-	-	-	2,054,508
Balance at June 30, 2018	**294,607,540**	**$ 23,543,534**	**$ 990,000**	**$ 2,864,16**	**$ 855,963**	**$ 787,376**	**$ (21,189,122)**	**$ (275,000)**	**$ 7,576,916**
Balance at December 31, 2018	**375,948,316**	**$ 48,624,710**	**$ (61,000)**	**$ 2,568,27**	**$ 817,463**	**$ -**	**$ (22,279,489)**	**$**	**$ 29,669,961**
Net and comprehensive loss for the period	-	-	-		-	-	(18,979,541)	-	(18,979,541)
Subscriptions received	-	-	61,000	-	-	-	-	-	61,000
Options exercised (Note 13)	20,875,000	2,881,250	-	-	-	-	-	-	2,881,250
Fair value of warrants exercised / expired	-	7,955	-	-	(7,955)	-	-	-	-
Fair value of options exercised / expired	-	1,596,567	-	(1,647,947)	-	-	51,380	-	-
Warrants exercised (Note 13)	13,147,700	1,051,816	-	-	-	-	-	-	1,051,816
Shares issued for equity participation (Note 13)	44,582,040	20,000,000	-	-	-	-	-	-	20,000,000
Shares issued for acquisition (Note 11)	20,588,235	10,705,882	-	-	-	-	-	-	10,705,882
Shares issued for service (Note 13)	12,781,690	6,521,479	-	-	-	-	-	-	6,521,479
Shares issued for transaction costs (Note 13)	2,000,000	780,000							780,000
Share-based compensation (Note 13)	-	-	-	6,625,672	-	-	-	-	6,625,672
Balance at June 30, 2019	**489,922,981**	**$ 92,169,659**	**$ -**	**$ 7,546,00**	**$ 809,508**	**$ -**	**$ (41,207,649)**	**$**	**$ 59,317,519**

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

	Six months ended June 30, 2019	June 30, 2018
Operating activities		
Net loss for the period	$ (18,979,541)	$ (4,041,868)
Adjustments for:		
Amortization	13,264	-
Share-based compensation	6,625,672	2,054,508
Unrealized gain on marketable securities	(114,183)	237,500
Gain on sale of assets	(325,537)	-
Foreign exchange	52,365	-
Share of equity accounted investment losses	483,268	-
Shares issued for services	7,151,479	-
Transaction costs	780,000	-
Accrued interest	(4,970)	-
Changes in non-cash working capital items:		
Receivables	(625,052)	(24,088)
Prepaids	(3,544,982)	28,724
Accounts payable and accruals	635,330	451,994
Net cash flows used in operating activities	(7,852,887)	(1,293,230)
Financing activities		
Loans payable	-	(243,740)
Subscriptions received	61,000	840,800
Proceeds on issuance of common shares, net	23,303,066	1,290,736
Net cash flows provided by financing activities	23,364,066	1,887,796
Investing activities		
Expenditures on equipment	(222,805)	(27,900)
Purchase of seed agriculture	(9,702)	-
Investment in and advances to Propagation Services Canada Inc.	(12,077,975)	(1,000,000)
Investment in Best Cannabis Products Inc.	(230,000)	-
Investment in Glow Lifetech Ltd.	(200,000)	-
Investment in marketable securities	(1,800,000)	-
Investment in Solaris	-	(158,038)
Net cash flows used in investing activities	(14,540,482)	(1,185,938)
Change in cash	970,697	(591,372)
Cash, beginning	10,718,888	3,791,249
Cash, ending	**$ 11,689,585**	**$ 3,199,877**

Non-cash transactions (Note 15)

(Expressed in Canadian Dollars)

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 diversified Company focused exclusively on the international cannabis industry. It owns an indoor cultivation operation in London, Ontario and is a joint venture partner 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 is 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 June 30, 2019, the Company has a working capital of $17,823,175 (December 31, 2018 – $11,071,721), and an accumulated deficit of $41,207,649 (December 31, 2018 - $22,279,489).

The Company generates minimal cash flow from operations and therefore relies upon the issuance of securities 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
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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year: value of marketable securities and other financial instruments; impairment of non-financial assets; and share-based compensation.

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its cannabis assets. This includes estimating the fair value of intangible assets held relating to the cannabis venture.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is 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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital (continued)

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.

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 and Colombia.

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.

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” replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019. There was no material impact on the Company’s financial statements upon adoption of this standard.

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 June 30, 2019, the shares had a fair value of $31,250 and the Company has an unrealized gain of $9,375.

CBD Therapeutics Corp.
During the period ended June 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 June 30, 2019, the shares had a fair value of $1,150,000 and the warrants had a fair value of $Nil and the Company has an unrealized gain of $150,000.

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

(Expressed in Canadian Dollars)

4. MARKETABLE SECURITIES (continued)

1205293 B.C. Ltd

During the period ended June 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 addition 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 June 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. At June 30, 2019, the shares had a fair value of $204,157 and the Company has an unrealized loss of $201,442.

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 13).

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 June 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 June 30, 2019 the shares had a fair value of $376,250 and the Company did not recognize any unrealized gain or loss.

5. RECEIVABLE

	June 30, 2019	December 31, 2018
Government sales tax recoverable	$ 423,612	$ 253,509
	$ 423,612	$ 253,509

6. LOANS RECEIVABLE

On August 27, 2018 the Company advanced $250,000 by way of a loan to Best Cannabis Products Inc. The loan is due October 25, 2019 and bears interest at 4% per annum. At December 31, 2018 a balance of $253,333 is receivable, and at June 30, 2019, a balance of $258,303 is receivable including accrued interest.

7. PREPAID EXPENSES

Prepaid expenses include advances to third-party supplies, prepaid insurances and deposits for purchase of assets from Organic Flower Investments Group Inc (Note 19).

(Expressed in Canadian Dollars)

8. PROPERTY AND EQUIPMENT

Property and equipment is held by AAA-Heidelberg Inc ("AAA-H"). The building is 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	Total
Cost:				
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	-	222,260	545	222,804
June 30, 2019	55,955	1,713,034	78,474	1,847,462
Amortization:				
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)	-	(9,718)	(13,263)
June 30, 2019	$ (23,701)	$ -	$ (23,122)	$ (46,822)
Net book value:				
December 31, 2018	$ 35,799	$ 1,490,774	$ 64,526	$ 1,591,099
June 30, 2019	$ 32,254	$ 1,713,034	$ 55,352	$ 1,800,640

9. 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 13).

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 June 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.

(Expressed in Canadian Dollars)

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 June 30, 2019	$	-

10. INVESTMENTS

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.

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 Agraflora 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.

10. INVESTMENTS (continued)

Investment in Best Cannabis Products Inc.

On February 28, 2019, the Company entered into a Simple Agreement for Future Equity ("SAFE") with Best Cannabis Products Inc. ("BCP") whereby the Company invested $230,000 ("Purchase Amount") into BCP (paid). Pursuant to the terms of the agreement, BCP 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, BCP 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 BCP issues and sells shares at a fixed pre-money valuation of $20,000,000 or more generating gross proceeds to BCP 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 BCP the number of shares equal to the Purchase Amount divided by the liquidity price.

In the event of dissolution, BCP 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, BCP 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.

Investment in Glow Lifetech Ltd.

During the period ended June 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 $35,849 for the period ended June 30, 2019.

11. INVESTMENT IN 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. During the period ended June 30, 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. At June 30, 2019, the Company holds a total of 50% 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. As at June 30, 2019, 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.

At June 30, 2019, the Company has invested $34,616,245 (2018 - $11,506,840) and recorded a loss on its equity investment of $447,419 (2018 - $31,967) for the period ended June 30, 2019.

(Expressed in Canadian Dollars)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2019	December 31, 2018
Accounts payable	$ 156,338	$ 141,039
Amount due to related parties	712,570	69,275
Accrued liabilities	91,052	114,318
	$ 959,960	**$ 324,632**

13. SHARE CAPITAL

a) Common shares

Authorized:
Unlimited number of common shares without par value.

Issued:

During the period ended June 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 (Note 18).

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).

During the period ended June 30, 2019, the Company issued 17,125,000 common shares on the exercise of options for proceeds of $2,251,250. An amount of $1,596,567 was transferred from option reserve to share capital on exercise.

During the period ended June 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.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

a) Common shares (continued)

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 June 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
At December 31, 2017	40,456,250	$	0.072
Warrants exercised	(25,405,150)		0.066
Warrants expired	(443,400)		-
At December 31, 2018	14,607,700	$	0.080
Warrants exercised	(13,147,700)		0.08
Warrants expired	(1,460,000)		0.08
Balance at June 30, 2019	-	$	-

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

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.

Grant Date	Expiry date	Number of options	Exercise price	
September 6, 2017	September 6, 2019	3,500,000	$	0.093
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	3,750,000		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
Balance at June 30, 2019		41,900,000	$	0.400

	Number of options	Weighted average exercise price	
At December 31, 2017	15,087,500	$	0.080
Options cancelled and expired	-		-
Options exercised	(5,400,000)		0.069
Options granted	24,625,000		0.159
At December 31, 2018	34,312,500		0.138
Options cancelled and expired	(937,500)		0.090
Options exercised	(20,875,000)		0.138
Options granted	29,400,000		0.520
At June 30, 2019	41,900,000	$	0.400

The weighted average remaining life of the options outstanding is 1.9 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%.

13. SHARE CAPITAL (continued)

c) Stock options outstanding (continued)

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%.

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

During the six months ended June 30, 2019, 17,125,000 options were exercised for gross proceeds of 2,251,250 and 3,750,000 options were exercised for $630,000 as departing compensation for past services for the former CEO and President.

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

d) 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.

e) 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.

14. 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 June 30, 2019 and year ended December 31, 2018:

(Expressed in Canadian Dollars)

14. RELATED PARTY TRANSACTIONS (CONTINUED)

Six months ended June 30, 2019	Consulting and Management Fees	Share-based compensation
Cherry Consulting Ltd	$ 59,955	$ 70,355
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	1,155,483	-
Clairewood Partners / David Parry	230,000	678,127
Christopher Hornung	60,000	132,438
Jerry Habuda	-	76,154
Brian O'Neill	-	99,349
Joseph Perino	-	76,154
Jan Urata	-	48,010
Brandon Boddy	-	710,200
	$ 1,505,438	$ 1,890,787

Six months ended June 30, 2018	Consulting and Management Fees	Share-based compensation
Christopher Hornung	$ -	$ -
Cherry Consulting Ltd	18,600	-
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	59,000	617,898
FourOneSix Inc.	125,000	308,949
Clairewood Partners / David Parry	22,000	617,898
	$ 224,600	$ 1,544,745

Amounts due to and due from former related parties are unsecured, non-interest bearing and due on demand. At June 30, 2019, $712,570 (December 31, 2018 - $69,275) is owing to former related parties for unpaid fees, which are included in accounts payable and accrued liabilities. Refer also to Note 12.

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	June 30, 2019	December 31, 2018
Fair value of transfer on exercise of stock options and warrants	$1,604,522	$ 310,695
Fair value of stock options and warrants expired	51,380	42,979
Shares issued for acquisitions and investments	10,705,882	2,187,500
Shares issued for debt	-	351,441
Shares and options issued for services	$ 7,151,478	$ 1,460,000

16. SEGMENTED INFORMATION

The Company focuses solely in the cannabis sector.

(Expressed in Canadian Dollars)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Classification of financial 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).

The Company's cash is measured using level 1 inputs.

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

	As at June 30, 2019		
	Level 1	**Level 2**	**Level 3**
Marketable securities	$ 1,385,407	1,332,500	-

	As at December 31, 2018		
	Level 1	**Level 2**	**Level 3**
Marketable securities	$ 21,875	-	-

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 June 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.

17. 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.

18. COMMITMENTS

During the period ended June 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.

19. EVENTS AFTER REPORTING PERIOD

Subsequent to June 30, 2019:

a) 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 certain assets listed below from OFIG. As consideration the Company issued 348,109,251 common shares with a fair value of $120,097,692 on July 11, 2019.

   - Exclusive Distribution Agreement dated May 8, 2019 between the Vendor and ICC International Cannabis Corp., 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.
   - 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 Canda's IP portfolio.

19. EVENTS AFTER REPORTING PERIOD (continued)

- 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.
- 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.
- 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.
- 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".
- 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.
- 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.
- 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.
- 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 issued finder common shares of 13,054,097 to an arm's length party for facilitating the acquisition.

b) On July 24, 2019, 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, wishes to sell 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.

c) On July 31, 2019, the Company entered into a non-binding Cannabidiol Commercialization and Consulting Letter of Intent with one of Canada's largest food retailers (the "Canadian Food Retailer"). Under the terms of the non-binding Letter of Intent, the Company and the Canadian Food Retailer will pursue a Supply and Consulting Agreement whereby the Company will supply the Canadian Food Retailer with a portfolio of CBD-infused consumer packed goods.

d) 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.

e) On August 12, 2019, the Company issued 319,551 common shares to settle $111,805 of debt for past consulting and other services provided.

f) On August 14, 2019, the Company issued 4,580,645 common shares on exercise of options for a gross proceed of $548,500.

g) On August 21, 2019, the Company issued 919,355 common shares on exercise of options for a gross proceed of $85,500.

19. EVENTS AFTER REPORTING PERIOD (continued)

h) On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of $4,050,000 pursuant to a Share Purchase Agreement dated August 19, 2019 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, to acquire 50% of the issued and outstanding common and preferred shares of Eurasia. In connection with the transaction, the Company issued a finder's fee of 1,500,000 common shares on August 21, 2019 with a fair value of $405,000.