



## **AGRAFLORA ORGANICS INTERNATIONAL INC.**

### **NEWS RELEASE**

#### **AgraFlora Organics Enters 2020 with Fully Automated Industrial Scale Edibles Facility, 2.2m Sq. Ft. Production Facility, Worldwide Distribution and Brands**

**Vancouver, British Columbia / January 7<sup>th</sup>, 2020 – AgraFlora Organics International Inc.** (“AgraFlora” or the “Company”) (CSE: AGRA) (Frankfurt: PU31) (OTCPK: AGFAF), a growth oriented and diversified international cannabis company, is pleased to provide the following corporate review of the calendar year 2019.

#### **2019 Year In Review**

2019 was a transformative year for AgraFlora, bookended by accretive acquisitions and commercial arrangements for the Company, including the increase of AgraFlora’s equity stake to 70 per-cent in its Propagation Services Canada (“PSC”) joint venture. PSC houses the Company’s 2.2 million square foot Delta Greenhouse Facility; second in size and magnitude only to the Smiths Falls facility owned by Canopy Growth Corporation, the world’s largest cannabis company. The Delta Greenhouse Facility is a state-of-the-art pressurized, semi-open Venlo greenhouse, which is widely considered to be one of the most technically advanced and environmentally friendly greenhouse operations in the world.

Additionally, the Company completed a watershed acquisition of a portfolio of cannabis 2.0 assets from an arms-length party, underpinned by a 51,500 square foot GMP-certified Winnipeg Edibles Manufacturing Facility (the “Winnipeg Edibles Facility”). Furthermore in 2019, AgraFlora aggregated the following high-margin cannabis 2.0 and downstream assets, infrastructure and brands:

- Canadian GMP-certified Bottling Facility;
- Canadian organic cannabis sativa seed oil cosmetics manufacturer, Canutra Naturals Ltd.;
- North American and Asia Pacific CBD performance products manufacturing and distribution agreements;
- Library of patented cannabis 2.0 product formulations;
- Patented, pharmaceutical grade and hermetically sealed beverage dispensing technology;
- Diversified portfolio of 57 distinct, high-value cannabis product and service trademarks; and
- Exclusive cannabinoid-infused beverage brewing agreement with a prominent Canadian brewing collective.

AgraFlora’s upstream and downstream operating portfolio affords the Company unmatched cannabis 2.0 optionality as the industry continues to mature.

Brandon Boddy, Chairman and Chief Executive Officer of AgraFlora stated: “2019 was a transformational year for AgraFlora and one that saw the Company evolve from a domestic cultivator to a vertically integrated, international cannabis company. Our world-class Delta Greenhouse Facility will catapult us into the ranks as a top five Canadian Licensed Producer, and when coupled with our scalable,

cannabis 2.0 manufacturing capabilities equips us with a opportunity to leverage our existing asset portfolio and licensed infrastructure to generate high-margin cash flows, while capture defendable market share.

As we begin to execute on our profit-focused 2020 blueprint, we continue to receive unrivalled support from our best in class joint-venture partners and industry consultants. AgraFlora boasts the human capital necessary to succeed in a dynamic cannabis industry, including corporate partners with centuries of experience in their respective domains: the Houwelings Group and our Edibles Manufacturing cohort. We anticipate another pivotal year in 2020, as all facilities reach full production capacity, and our products continue to penetrate the legal cannabis market across both domestic and international marketplaces.”

### **Flagship Production and Manufacturing Assets**

AgraFlora’s cannabis manufacturing stratagem is led by its 51,500 square foot, GMP Winnipeg Edibles Facility. To the Company’s knowledge, its Winnipeg Edibles Facility is the only industrial-scale edibles facility in the country to boast complete automation and production mechanizations, as opposed to the hand manufacturing processes employed by its Tier 1 licensed producer peers. AgraFlora’s Winnipeg Edibles Facility is outfitted with fully automated production flows; therefore, reducing associated labour costs and optimizing product throughput, as follows:

- **Cooking automation:** The Winnipeg Edibles Facility is equipped with a confectionery line powered by a custom, made-to-order cooking and mixing system. Recipes are programmed into the confectionery line’s operating system and are queued for production runs. Once the production run is initiated, pumping and heating, mixing, and the cooking of formulations are executed in continuous automated process, requiring no human intervention.
- **Depositing automation:** A starchless confectionery mogul corrals the cooked cannabis-infused confectionery and deposits the product into silicon moulds, with resulting deposit accuracy of greater than 99.5 per cent. Flavours, colours and cannabis oil can be substituted during production runs, with no downtime required for changeovers. The confectionery is then automatically cooled, demoulded, sour sanded or oiled, and then individually wrapped. From the moment ingredients arrive at the plant to the time products emerge as finished cannabis-infused edibles, no manual processes or human intervention are required.
- **Packaging automation:** The Winnipeg Edibles Facility is equipped with industrial high-speed packaging infrastructure that can wrap, bag and bottle cannabis edibles at speeds exceeding 15,000 packages per hour. Excise stamps are robotically applied to the packages and they are packed into finished cases leveraging automated pick and place systems.

The Company’s Winnipeg Edibles Facility, with 51,500 square feet, is equipped with over 30,000 square feet of dedicated edibles production space, as well as a 750-square-foot pharmaceutical-grade edibles research laboratory. 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.

AgraFlora’s bellwether production hub, the Delta Greenhouse Facility is a state-of-the-art pressurized, semi-open Venlo greenhouse, which is widely considered to be one of the most technically advanced and environmentally friendly greenhouse operations in the world. Upon successful award of its aforementioned Health Canada cultivation licence, the Delta Greenhouse Facility will hold claim to the highly coveted spot as the world’s second-largest cannabis cultivation operation under glass, with an estimated replacement cost of \$190 million.

By way of additional comparison, Agriflora's Delta Greenhouse 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.

Agriflora's internal forecasts indicate that upon receipt of its aforementioned standard cultivation licence from Health Canada, the company will become the fourth-largest licensed producer (LP) in Canada by 2020 financed production metrics:

<b>Issuer</b>	<b>2020 Estimated Annual Capacity (in grams)</b>	<b>Current Market Capitalization</b>
Aurora	700,000,000	\$ 2,680,203,000
Canopy Growth	525,000,000	\$ 9,069,607,000
Aphria	255,000,000	\$ 1,559,658,000
AgraFlora & PSC	251,250,000 <sup>1</sup>	\$ 79,417,000
Tilray	225,000,000	\$ 1,286,841,000
Cronos Group	150,000,000	\$ 3,076,257,000
OrganiGram	113,000,000	\$ 437,302,000

The Company plans to pursue the processing of EU-GMP compliant cannabis products from its flagship 2.2 million square foot Delta Greenhouse Facility for integration into its European distribution channels. EU-GMP certified cannabis products are eligible for import/export and sale in the European Union.

## **Cannabis 2.0**

In preparation for the next phase of cannabis normalization, as well as the associated regulations, AgraFlora has executed on an assertive corporate acquisition stratagem, amassing a diverse portfolio of vertically integrated cannabis 2.0 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 research and development, and derivative product development.

Throughout 2019, the Company by way of direct capital disbursement and/or acquisition deployed over \$85 million in associated plant, property and equipment (“PPE”) expenditures related to its cannabis 2.0 asset portfolio. Highlights of AgraFlora’s cannabis 2.0 PPE expenditures are as follows:

- \$16 million in PPE expenditures at its Winnipeg Edibles Facility and 76-acre New Brunswick cannabis campus;
- US\$30 million in connection with its patented, pharmaceutical grade and hermitically sealed dispensing technology; and,
- \$10 million in capitalized assets in relation to its 57 distinct, high-value cannabis trademarks, associated goodwill, and branding and exclusive distribution rights in connection with the Toronto Wolfpack RLFC.

<sup>1</sup> Forecasted fully funded production metrics derived upon achievement of optimized production at AAA Heidelberg and the Delta Greenhouse Complex.

## Health Canada Licensing

The Company and its associated subsidiaries were awarded the following Health Canada licenses in the year 2019:

- Industrial hemp license at its 2.2 million square foot Delta Greenhouse Facility;
- Cannabis research license at its Winnipeg Edibles Facility;
- Cannabis research licence at its GMP-certified Toronto Bottling Facility;
- Cannabis research license at its 76-acre New Brunswick Cannabis Campus;
- Standard cultivation license at its Sustainable Growth Strategic Facility (Sanna);
- Standard processing license at its Sustainable Growth Strategic Facility (Sanna); and,
- Medical sales license at its Sustainable Growth Strategic Facility (Sanna).

The aforementioned Health Canada licenses function as a foundation for AgraFlora's anticipated award of a standard cultivation license at its 2.2 million square foot Delta Greenhouse Facility. In September 2019, AgraFlora submitted its affirmation of readiness and video evidence package to Health Canada for its Phase 1 build out at the Delta Greenhouse Facility. To date, the Company has received two separate rounds of request-for-more-information (the "RMIs") and reports no material deficiencies in its application. AgraFlora plans to submit its second RMI response to Health Canada on or before January 15, 2020. The Company remains confident its upcoming RMI response will address all outstanding requests from Health Canada.

In December of 2019, AgraFlora entered into an interim agreement to acquire 100 per-cent of Sanna Health Corp., a Canadian cannabis company based in the Greater Toronto Area. Sanna's flagship asset is the Sustainable Growth Strategic Facility which is situated on 16 acres and includes 27,000 square feet of Health Canada licensed cultivation and processing space. Coupled with an option to expand its current production area to 89,000 square feet as well as ample commercial-industrial space for future expansion. Once Ontario's anticipated regulatory changes take effect expanding retail opportunities Sanna will look to architect and operate an on-site dispensary allowing the Company to capitalize on its prime proximity to the seven million population in the GTA and immediately surrounding areas.

## Construction

Throughout 2019, AgraFlora completed 99 per-cent of its Phase 1 facility retrofit and construction initiatives at the Delta Greenhouse Facility, including:

- Completion of perimeter security fencing;
- Installation of comprehensive surveillance and anti-intrusion systems, as well as access control infrastructure supported by servers and sustained by independent, backup generators;
- Completion of post-harvest zones including dry rooms, trim room, secure storage and packaging facilities;
- Retrofitting of garment hygiene rooms, security/administration offices, as well as staff amenities;
- Installation of state-of-the-art air exchange system equipped with climate and odour controls;
- Full roof vent insect netting installation for crop protection;
- Supplemental light output upgrades and the furnishing of light deprivation screens;
- Installation of irrigation buffer tanks, mixing stations, and distribution system;
- Retrofit and upgrade of Argus Titan climate control system; and,
- Completed grow room divisions for climate and hygiene isolation.

The Phase 1 retrofit at the Company's flagship Delta Greenhouse Facility comprises approximately 431,000 square feet of cultivation/processing expanse, including over 130,000 square feet of net flower canopy and is estimated to produce 15 million grams of premium cannabis annually.

AgraFlora also reports substantial progress pertaining to retrofit and construction initiatives at its Winnipeg Edibles Facility during the 2019 calendar year. The Company forecasts construction will be completed at its Winnipeg Edibles Facility during the first quarter of 2020.

During Q4 2019, AgraFlora also announced the commencement of a retrofit to seven of the non-core operating buildings at its New Brunswick cannabis campus, including:

- Structural restorations;
- Water system restoration;
- Ventilation system maintenance; and,
- Additional processing/laboratory/storage area preparation.

### **European Distribution**

The fourth quarter of 2019 saw AgraFlora acquire 100 per-cent of the issued and outstanding shares of The Good Company GmbH (“The Good Company”), with The Good Company becoming a wholly-owned subsidiary of AgraFlora. The Good Company is the parent company of German European Union good distribution practice medical cannabis distributor (EU-GDP) 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.

This acquisition expedited AgraFlora’s entrance into the European cannabis theatre by arming the Company with existing cannabis distribution infrastructure, supply and licenses/certifications, all while equipping the Company with experienced European cannabis operators. The combined AgraFlora-Farmako entity will function as a high-margin European distribution hub for the Company’s medical cannabis flower and EU-GMP certified manufactured cannabis products produced from its Delta Greenhouse Facility, AAA Heidelberg craft cannabis facility and 27,000 square foot Scarborough, Ontario cultivation and processing facility.

Farmako realized revenues of over \$2.75 million throughout the 2019 fiscal year and has succeeded in capturing an 8 per-cent market share of Germany's burgeoning medical cannabis arena, while maintaining the highest capital efficiency and positive EBIT margins within the industry.

### **Domestic Distribution**

AgraFlora currently has memorandums of understanding (MoUs) in place with established cannabis retailers, Canna Cabana by High Tide Inc (“Canna Cabana”), as well as Delta 9 Cannabis Inc. (“Delta 9”). In aggregate, Canna Cabana and Delta 9 will boast 45 licensed, high-traffic brick-and-mortar retail locations across Canada by the first quarter of 2020.

In Q4 of 2019, AgraFlora achieved approved supplier status from Gateway Newstands (“Gateway”), North America's premier newsstand retailer, thus securing high-visibility Canadian shelf space for the Company’s CPG product offering across Gateway locations. AgraFlora and Gateway also announced the companies will also deploy best commercial efforts to pursue conversations relating to a CBD supply and consulting agreement, whereby AgraFlora and Gateway may collaborate to produce a portfolio of CBD-infused CPGs, within eligible jurisdictions.

### **Asia Pacific Distribution**

In Q3 of 2019, the Company entered into a definitive agreement to acquire 50 per cent of the issued and outstanding shares of Eurasia Infused Cosmetics Inc. AgraFlora and Eurasia 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 CBD Group Asia Ltd., controls distribution agreements for CBD and organic cannabis sativa seed oil consumer packaged goods (“CPGs”) for the territories of the People's Republic of China, as well as the Hong Kong special administrative region. This distribution agreement extends to AgraFlora's existing portfolio of CBD-infused and organic cannabis sativa seed oil derived product suite.

### **\$30 Million Financing**

In December of 2019, AgraFlora closed its previously announced private placement of convertible debentures (the “Offering”) for gross proceeds of \$30 million.

Each Debenture consists of one senior unsecured convertible debenture (each, a “Debenture”) of the Company in the principal amount of \$1,000. Each Debenture is convertible, in whole or in part at the right of the holder, into: (i) that number of common shares in the capital of the Company (the “Debenture Shares”) that is equal to the principal amount of each Debenture being so converted divided by \$0.30 per Debenture Share, subject to customary adjustment provisions in certain stated circumstances; and (ii) a cash payment equal to an amount corresponding to the interest that such holder would have received if it had held the Debenture from the date of conversion of such Debenture until March 12, 2021 (the “Maturity Date”). Upon conversion of the Debentures, the holder shall receive a cash payment equal to the accrued and unpaid interest due on the Debentures being so converted on and including the date of conversion. The Debentures will bear interest at a rate of 10.0 per-cent per annum, payable semi-annually, until the Maturity Date.

### **About AgraFlora Organics International Inc.**

AgraFlora Organics International Inc. is a growth oriented and diversified company focused on the international cannabis industry. It owns an indoor cultivation operation in London, ON and is a joint venture partner in Propagation Services Canada Inc. and its large-scale 2,200,000 sq. ft. greenhouse complex in Delta, BC. The Company is also retrofitting a 51,500-square-foot good manufacturing practice (“GMP”) edibles manufacturing facility in Winnipeg, Manitoba. AgraFlora has a successful record of creating shareholder value and is actively pursuing other opportunities within the cannabis industry. For more information please visit: [www.agraflora.com](http://www.agraflora.com).

### **ON BEHALF OF THE BOARD OF DIRECTORS**

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