**AGRAFLORA ORGANICS INTERNATIONAL INC.**

**Condensed Interim Consolidated Financial Statements**
**Three Months Ended March 31, 2020**

**(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. for the three months ended March 31, 2020 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.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
(Unaudited – prepared by management)

| | Notes | March 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 598,068 | $ 4,076,295 |
| Loan receivable | 6 | 208,712 | 205,721 |
| Amounts receivable | 5 | 1,179,256 | 836,417 |
| Prepaids and deposits | 7 | 1,010,924 | 1,073,617 |
| Inventory | | 148,934 | 5,135 |
| | | 3,145,894 | 6,197,185 |
| **Non-current assets** | | | |
| Equity accounted investments | 10,11,14 | 54,928,612 | 50,791,920 |
| Prepayment for acquisitions | 7 | 350,000 | 11,902,083 |
| Property and equipment | 8 | 20,085,533 | 8,837,948 |
| Convertible debenture receivable | 14 | 27,801,528 | 24,636,507 |
| Intangible assets | 9 | 25,142,505 | 1,491,410 |
| Goodwill | 9,13 | 5,690,845 | 3,759,646 |
| **TOTAL ASSETS** | | **$ 137,144,917** | **$ 107,616,699** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 15 | $ 7,386,857 | $ 2,407,377 |
| Current portion of lease liability | 16 | 496,418 | 113,340 |
| Loan payable | 18 | 350,000 | - |
| Convertible loan payable-short term | 17 | 16,124,393 | 7,569,106 |
| | | 24,357,668 | 10,089,823 |
| **Non-current Liabilities** | | | |
| Long-term convertible debt | 17 | 29,532,100 | 28,191,802 |
| Contingent consideration payable | 13 | 5,000,000 | - |
| Long-term lease liability | 16 | 4,724,140 | 1,770,392 |
| Derivative liability | 13,17 | 9,491,171 | 1,465,129 |
| **TOTAL LIABILITIES** | | **$ 73,105,079** | **41,517,146** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 19 | 158,538,001 | 149,515,773 |
| Reserves | 19 | 28,525,264 | 40,464,785 |
| Deficit | | (122,063,242) | (123,209,175) |
| Attributable to shareholders | | 65,000,023 | 66,771,383 |
| Non-controlling interest | 12 | (960,185) | (671,830) |
| **TOTAL SHAREHOLDERS' EQUITY** | | **64,039,838** | **66,099,553** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 137,144,917** | **$ 107,616,699** |

**Nature and continuance of operations** (Note 1)
**Commitments** (Note 23)
**Subsequent events** (Note 24)

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

| | | Three months ended | |
|---|---|---|---|
| | **Notes** | **March 31, 2020** | **March 31, 2019** |
| **Sales** | | $ 365,035 | $ - |
| Cost of goods sold | | (225,079) | - |
| | | 139,956 | - |
| **Expenses** | | | |
| Professional fees | | 305,861 | 67,071 |
| Consulting and management | 20 | 1,387,795 | 430,555 |
| Corporate development | | 753,526 | - |
| Amortization | 8,9 | 143,199 | 6,630 |
| Investor communications | | 16,064 | 1,062,240 |
| Wages and salary | | 284,684 | - |
| Office and sundry | | 122,659 | 17,753 |
| Regulatory and transfer agent fees | | 67,532 | 17,722 |
| Rent expense | | 23,985 | - |
| Transaction costs | 10,12,17,18 | 5,898,353 | - |
| Foreign exchange loss | | (30,642) | - |
| Finance and other costs | | 1,674,755 | - |
| Research and development | | 118,000 | - |
| Share-based compensation | 12,18,19 | 467,226 | 4,964,077 |
| Travel and business development | | - | 6,106 |
| Production costs | | 1,265,298 | - |
| Distribution expenses | | 2,000 | - |
| Other general and operating costs | | 110,535 | - |
| | | (12,610,830) | (6,572,154) |
| **Other items** | | | |
| Unrealized loss on marketable securities | 4 | - | 18,750 |
| Share of losses in equity accounted investments | 10,11 | (246,308) | (102,898) |
| Interest income | 6 | 2,992 | - |
| Fair value movement on investments | 14 | 3,165,021 | - |
| **Net loss for the period** | | **$ (9,689,125)** | **$ (6,656,302)** |
| **Comprehensive loss for the period** | | **$ (9,549,169)** | **$ (6,665,302)** |
| **Net and comprehensive loss attributable to:** | | | |
| Shareholders of Agraflora Organics International Inc. | | $ (9,260,814) | (6,656,302) |
| Non-controlling interests | 12,13 | (288,355) | - |
| | | **$ (9,549,169)** | **-** |
| **Net loss per share – basic and diluted** | | **$ (0.01)** | **$ (0.02)** |
| **Weighted average number of common shares outstanding** | | **1,005,999,671** | **403,149,056** |

AGRAFLORA ORGANICS INTERNATIONAL 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 | Share-based payment reserves | Warrant reserve | Non-controlling interest | Deficit | Total |
| **Balance at December 31, 2018** | **375,948,316** | **$48,624,710** | **$(105,000)** | **$ 2,568,276** | **$ 817,464** | **$ -** | **$ (22,279,489)** | **$ 29,625,961** |
| Net and comprehensive loss for the year | - | - | - | (1,486) | - | - | (6,620,477) | (6,621,963) |
| Subscriptions received / receivable | - | - | (63,000) | - | - | - | - | (63,000) |
| Options exercised (Note 19) | 17,125,000 | 1,621,250 | - | - | - | - | - | 1,621,250 |
| Warrants exercised (Note 19) | 13,147,700 | 1,051,816 | - | - | - | - | - | 1,051,816 |
| Shares issued for equity participation (Note 19) | 44,582,040 | 20,000,000 | - | - | - | - | - | 20,000,000 |
| Share-based compensation (Notes 12, 18, 19) | - | - | - | 4,964,077 | - | - | - | 4,964,077 |
| **Balance at March 31, 2019** | **450,803,056** | **$71,297,776** | **$(168,000)** | **$ 7,530,867** | **$ 817,464** | **$ -** | **$ (28,899,966)** | **$ 50,578,141** |
| **Balance at December 31, 2019** | **934,322,547** | **$ 149,515,773** | **$ -** | **$ 12,531,446** | **$ 27,933,339** | **$ (671,830)** | **$ (123,209,175)** | **$ 66,099,553** |
| Net and comprehensive loss for the year | - | - | - | - | - | (288,355) | (9,260,814) | (9,549,169) |
| Expired options (Note 19) | - | - | - | (10,406,747) | - | - | 10,406,747 | - |
| Fair value adjustment (Notes 9, 13) | | (6,828,125) | - | - | - | - | - | (6,828,125) |
| Transaction cost (Note 19) | 58,823,529 | 5,882,353 | - | - | - | - | - | 5,882,353 |
| Conversion of special warrants (Note 19) | 6,666,667 | 2,000,000 | - | - | (2,000,000) | - | - | - |
| Shares for services (Note 19) | 800,000 | 68,000 | - | - | - | - | - | 68,000 |
| Shares for acquisition (Note 19) | 76,666,666 | 7,900,000 | - | - | - | - | - | 7,900,000 |
| Share-based compensation (Notes 12, 18, 19) | - | - | - | 467,226 | - | - | - | 467,226 |
| **Balance at March 31, 2020** | **1,077,279,409** | **$158,538,001** | **$-** | **$ 2,591,925** | **$ 25,933,339** | **$ (960,185)** | **$ (122,063,242)** | **$ 64,039,838** |

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

| | Three months ended March 31, 2020 | March 31, 2019 |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | $ (9,549,169) | $ (6,656,302) |
| Adjustments for: | | |
| Amortization | 143,199 | 6,630 |
| Unrealized loss on marketable securities | - | 18,750 |
| Accrued interest | 1,640,350 | - |
| Consulting fees | 68,000 | - |
| Share of losses in equity investments | 246,308 | - |
| FV change on movement in investments | (3,165,021) | - |
| Transaction cost | 5,882,353 | - |
| Share-based compensation | 467,226 | 4,964,077 |
| Foreign exchange loss | (30,642) | - |
| Changes in non-cash working capital items: | | |
| Accounts receivables | (342,839) | (52,914) |
| Prepaids | 62,693 | - |
| Inventory | (143,799) | - |
| Accounts payable and accruals | (33,429) | 69,212 |
| **Net cash flows used in operating activities** | (4,754,770) | (1,650,547) |
| | | |
| **Financing activities** | | |
| Proceeds from convertible debt | 8,333,000 | - |
| Repayment of lease liability | (109,031) | - |
| Proceeds on issuance of common shares, net of subscriptions received / receivable | - | 22,673,316 |
| **Net cash flows provided by financing activities** | 8,223,969 | 22,673,316 |
| | | |
| **Investing activities** | | |
| Expenditures on equipment | (2,564,426) | - |
| Investment in marketable securities | - | (1,430,000) |
| Investment in and advances to PSC | (4,383,000) | (829,918) |
| **Net cash flows used in investing activities** | (6,947,426) | (2,259,918) |
| | | |
| Change in cash | (3,478,227) | 18,762,851 |
| Cash, beginning | 4,076,295 | 10,718,888 |
| **Cash, ending** | **$ 598,068** | **29,481,739** |

**Non-cash transactions** (Note 21)
**Subsequent events** (Note 24)

## 1. NATURE AND CONTINUANCE OF OPERATIONS

AgraFlora Organics International 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. The Company's flagship assets include Edibles & Infusions, a fully automated manufacturing facility in Winnipeg, Man., for white-label and consumer-branded edible production and it's 70% equity interest in Propagation Services Canada, a 2,200,000 sq. ft. greenhouse complex in Delta, B.C. In addition, Agraflora's wholly owned subsidiary Farmako GmbH is a distributor of medical cannabis in Europe. The Company's corporate office is located at Suite 804, 750 Pender Street, Vancouver, British Columbia V6C 2T7. 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 18. At March 31, 2020, the Company has a working deficit of $21,211,774 (December 31, 2019 - $3,892,638), and an accumulated deficit of $122,063,242 (December 31, 2019 - $123,209,175).

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.

The condensed consolidated interim financial statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the Company's annual consolidated financial statements, except for the adoption of new accounting standards and/or estimates identified in Note 3. Given that certain information and disclosures, which are included in the annual audited consolidated financial statements, have been condensed or excluded in accordance with IAS 34, these financial statements should be read in conjunction with our annual audited consolidated financial statements as at and for the year ended December 31, 2019, including the accompanying notes thereto.

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on July 16, 2020.

(Expressed in Canadian Dollars)

## 2. BASIS OF PREPARATION (continued)

### Basis of Consolidation

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 principal subsidiaries:

| | Ownership Interest | Jurisdiction |
|---|---|---|
| AAA Heidelberg Inc. | 100% | Canada |
| Potluck Potions and Edibles Inc. | 80% | Canada |
| Canutra Naturals Ltd. | 100% | Canada |
| SUHM Investments Inc. | 100% | Canada |
| The Edibles and Infusions Corp. | 80% | Canada |
| 11122347 Canada Corp d/b/a Canada Cap Corp | 80% | Canada |
| 1180782 B.C. Ltd. d/b/a Delta Organic Cannabis Corp. | 100% | Canada |
| 11353675 Canada Corp. d/b/a CanaBeer | 80% | Canada |
| 11353705 Canada Corp. d/b/a Canada Gum Corp. | 80% | Canada |
| Trichome Canabrands Inc. | 100% | Canada |
| Sanna Health Corp | 100% | Canada |
| The Good Company GmbH | 100% | Germany |
| 11406426 Canada Corp. d/b/a Canada Formulations Corp | 80% | Canada |

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

### COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company’s operations during the third quarter of 2020. The production and sale of cannabis have been recognized as essential services across Canada and Europe. As at March 31, 2020, we have also not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on our business, financial position and operating results in the future. In addition, it is possible that estimates in the Company’s financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets including intangibles and goodwill. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 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 have joint control of the arrangement and have rights to the net assets of the arrangement.

## 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Company accounts for the following using the equity method as the Company does not have control:

| | Ownership Interest | Jurisdiction |
|---|---|---|
| Propagation Services Canada Inc. | 70% | Canada |
| Eurasia Infused Cosmetics Inc. | 50% | Canada |
| JJ Wolf Investment Ltd. | 50% | Canada |

**Newly adopted accounting standards**

**Amendments to IFRS 3, Business Combinations ("IFRS 3")**
In October 2018, the IASB issued "Definition of a Business (Amendments to IFRS 3)". The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment provides an assessment framework to determine when a series of integrated activities is not a business.

The amendments are effective for business combinations and asset acquisitions occurring on or after January 1, 2020.

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

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**
The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

(Expressed in Canadian Dollars)

## 4. MARKETABLE SECURITIES

The continuity of the Company's marketable securities is as follows:

| | December 31, 2018 | Additions | Disposals | Realized gain (losses) | December 31, 2019 and March 31, 2020 |
|---|---|---|---|---|---|
| Investment in public and private entities: | $ | $ | $ | $ | $ |
| Volt Energy Inc. | 21,875 | - | 37,500 | 15,625 | - |
| Empower Clinics Inc | - | 1,000,000 | 1,000,000 | - | - |
| Transnational Cannabis Ltd. | - | 9,703 | 156,000 | 146,297 | - |
| Cannabis Clonal Corp. | - | 300,000 | 300,000 | - | - |
| 1205293 B.C. Ltd. | - | 500,000 | 500,000 | - | - |
| Roughrider Capital Corp. | - | - | 532,500 | 532,500 | - |
| Eurolife Brands Inc. | - | - | 433,920 | 433,920 | - |
| Mindful Capital Inc. | - | 400,000 | 400,000 | - | - |
| Sire Bioscience Inc. | - | 498,684 | 548,552 | 49,868 | - |
| Total | 21,875 | 2,708,387 | 3,908,472 | 1,178,210 | - |

Investment in equities include both publicly-traded and private investments. The fair value of investments in publicly-traded entities is based on quoted closing prices at the valuation date. The fair value of investments in private entities were estimated based on a Level 3 market approach of fair value. The Company held Volt Energy Inc. common shares valued at $21,875 as at December 31, 2018 and recorded an unrealized loss of $290,624 during year ended December 31, 2018. During the year ended December 31, 2019, the Company obtained and purchased several investments for a total of $2,708,387. During the year ended December 31, 2019, all of the marketable securities held by the Company were sold to JJ Wolf Investment Ltd. ("JJ Wolf") for $3,908,472, being the fair value of 10,000,000 shares received in consideration for the sale, resulting in a realized gain on sale of $1,178,210 (Note 10).

<u>Transnational Cannabis Ltd.</u>

The Company entered into a Cannabis Strain and Genetics Transfer Agreement with Transnational Cannabis Ltd. (formerly ICC International Cannabis Corp.) ("Transnational") on April 9, 2019, whereby the Company sold a portfolio of cannabis strains with a cost of $9,703 to Transnational in exchange for 1,000,000 common shares of Transnational.

On May 21, 2019, the Company entered into a commercial rights and offtake agreement with Transnational, whereby Transnational will purchase 20,000 kilograms of dried cannabis per annum for a term of 5 years expiring on December 31, 2024 from Propagation Services Canada Inc. ("PSC"). On May 28, 2019, in consideration for facilitating the execution 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 19).

On July 24, 2019, the Company sold its 1,000,000 common shares of Transnational to JJ Wolf (Note 10).

<u>Eurolife Brands Inc.</u>
On July 15, 2019, the Company purchased 452 common shares of 1216165 B.C. Ltd for cash payment of $0.0452. During the year ended December 31, 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.).

On July 24, 2019, the Company sold its 3,616,000 common shares of Eurolife Brands Inc. to JJ Wolf (Note 10).

**4. MARKETABLE SECURITIES (CONTINUED)**

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. The 1,250,000 Roughrider shares were valued at $156,250 prior to sale to JJ Wolf.

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.

On July, 24, 2019, the Company sold its 4,260,000 common shares of Roughrider to JJ Wolf. (Note 10).

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. ("BCP")) whereby the Company invested $230,000 ("Purchase Amount") into Sire. 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.

(Expressed in Canadian Dollars)

## 4. MARKETABLE SECURITIES (CONTINUED)

Sire Bioscience Inc. (continued)

On August 27, 2018 the Company advanced $250,000 by way of a loan to Sire. The loan was due October 25, 2019 and bore interest at 4% per annum. As at December 31, 2018, a balance of $253,333 is receivable, including accrued interest. The Company further advanced $18,684 of loan to Sire during the year ended December 31, 2019. During the year ended December 31, 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 $18,684 of debt to 5,373,670 common shares of Sire with a fair value of $268,684. The Company did not recognize any gain or loss from the conversion of loan to shares.

On July, 24, 2019, the Company sold its 9,973,670 common shares of Sire to JJ Wolf. (Note 10).

## 5. AMOUNTS RECEIVABLE

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Current: | | |
| Government sales tax recoverable | $ 1,045,610 | $ 806,417 |
| Other receivable | 133,646 | 30,000 |
| | $ 1,179,256 | 836,417 |

## 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 December 31, 2019, the loan has matured and is no longer convertible. The outstanding loan receivable is $419,945, including accrued interest. During the year ended December 31, 2019, the Company recorded a provision of $419,945 against the loan and impaired the loan receivable to $Nil.

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 December 31, 2019, a balance of $205,721 is receivable, including accrued interest, and at March 31, 2020, a balance of $208,712 is receivable including accrued interest.

## 7. PREPAID EXPENSES

| | March 31, 2020<br>$ | December 31, 2019<br>$ |
|---|---|---|
| Current: | | |
| Advances to third-party supplies | 998,996 | 1,065,784 |
| Prepaid insurance and property taxes | 11,928 | 7,833 |
| Total | 1,010,924 | 1,073,617 |
| Non-current: | | |
| Prepayment for asset acquisitions | 350,000 | 11,902,083 |
| Total | 1,360,924 | 12,975,700 |

On August 27, 2019, the Company entered into Letter of Intent to acquire 100% of all of the issued and outstanding common shares of 11371436 Canada Corp for a purchase price of $250,000. As consideration, the Company paid $150,000 during the year ended December 31, 2019 and paid $50,000 during the period ended March 31, 2020. The cash paid is recorded in prepayment as the acquisition had not closed as of March 31, 2020.

(Expressed in Canadian Dollars)

## 7. PREPAID EXPENSES (CONTINUED)

During the year ended December 31, 2019, the Company advanced $150,000 towards potential acquisition of Farma Swiss S.A.S. The cash paid is recorded in prepayment as the acquisition had not closed as of March 31, 2020.

## 8. PROPERTY AND EQUIPMENT

Property and equipment are held by the Company and its subsidiaries. Certain buildings, certain furniture and equipment, computers and leasehold improvements are currently not available for use and have 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 $ | Leasehold improvements $ | Land $ | Total $ |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| December 31, 2018 | 55,955 | 1,490,774 | 77,929 | - | - | - | 1,624,658 |
| Additions | 1,117,467 | 2,720,699 | 545 | - | 387,563 | - | 4,226,274 |
| Acquired from business combinations / asset acquisitions | 859,186 | - | - | 1,931,548 | - | 373,700 | 3,164,434 |
| December 31, 2019 | 2,032,608 | 4,211,474 | 78,474 | 1,931,548 | 387,563 | 373,700 | 9,015,366 |
| Additions | 434,657 | 1,944,710 | - | - | 125,668 | - | 2,505,035 |
| Acquired from business combinations / asset acquisitions | 152,270 | 3,169,500 | - | 3,414,784 | 2,336,311 | - | 9,072,865 |
| **March 31, 2020** | **2,619,535** | **9,325,684** | **78,474** | **5,346,332** | **2,849,542** | **373,700** | **20,593,266** |
| | | | | | | | |
| **Amortization:** | | | | | | | |
| At December 31, 2018 | (20,156) | - | (13,403) | - | - | - | (33,559) |
| Charge for the year | (8,254) | - | (19,438) | (112,674) | - | - | (140,366) |
| Acquired from business combinations | (3,493) | - | - | - | - | - | (3,493) |
| At December 31, 2019 | (31,903) | - | (32,841) | (112,674) | - | - | (177,418) |
| Charge for the period | (12,054) | (25,921) | (13,688) | (61,839) | - | - | (113,503) |
| Acquired from business combinations | - | - | - | (216,812) | - | - | (216,812) |
| **March 31, 2020** | **(43,958)** | **(25,921)** | **(46,529)** | **(391,325)** | **-** | **-** | **(507,733)** |
| | | | | | | | |
| **Net book value:** | | | | | | | |
| December 31, 2019 | 2,000,705 | 4,211,474 | 45,633 | 1,818,874 | 387,563 | 373,700 | 8,837,948 |
| **March 31, 2020** | **2,575,577** | **9,299,763** | **31,945** | **4,955,007** | **2,849,542** | **373,700** | **20,085,533** |

The right-of-use asset relates to the leased building and land in Winnipeg, Manitoba for the purpose of production of edibles and infusion products containing CBD and THC as well as leased manufacturing facility in Ontario upon acquisition of Sanna (Note 12). The Manitoba and Ontario leases are reflected on the balance sheet as right-of-use assets, with an associated lease liability (Note 16). The discount rate applied to the lease is 11.34% and 10.58%.

(Expressed in Canadian Dollars)

## 9. INTANGIBLE ASSETS AND GOODWILL

At December 31, 2019, the Company had intangible assets of licenses, a non-compete agreement and goodwill. During the period ended March 31, 2020, the Company acquired customer relationships, distribution license, brand and additional goodwill as follows:

| | Licenses<br>$ | Customer Relationships<br>$ | Intangible Agreement<br>$ | Non-Compete Agreement<br>$ | Brand<br>$ | Goodwill<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2018** | **5,350,901** | **-** | **-** | **-** | **-** | **-** | **5,350,901** |
| Acquired from business combinations / asset acquisitions | - | - | 40,709 | 200,000 | - | 9,484,015 | 9,724,724 |
| Amortization | - | - | - | (11,111) | - | - | (11,111) |
| Impairment | (4,048,380) | - | (40,709) | - | - | (5,724,369) | (9,813,458) |
| **Balance, December 31, 2019** | **1,302,521** | **-** | **-** | **188,889** | **-** | **3,759,646** | **5,251,056** |
| Acquired from business combinations / asset acquisitions | 21,942,711 | 869,040 | - | - | 869,040 | 1,931,199 | 27,012,191 |
| Amortization | - | (24,140) | - | (5,556) | - | - | (29,696) |
| **Balance, March 31, 2020** | **23,245,232** | **844,900** | **-** | **183,333** | **869,040** | **5,690,845** | **30,833,350** |

The Health Canada licenses arose as a result of acquisition of AAA Heidelberg Inc. (Note 10) and Sanna Health Corp (Note 12). The distribution licenses arose as a result of acquisition of The Good Company (Note 13). The Health Canada licenses are not ready for their intended use and no amortization has been recorded for the period ended March 31, 2020 (2019 - $Nil). The distribution licenses have an indefinite life and will not be amortized.

The non-compete agreement arose as a result of the acquisition of The Edibles and Infusions Corp. (Note 12) and is amortized on a straight-line basis over the 9-year term of the agreement, resulting in an amortization of $5,556 for the period ended March 31, 2020 (2019- $Nil)

The brand and customer relationships arose as a result of the acquisition of The Good Company (Note 12). The brand will not be amortized as it has an indefinite life. The customer relationships will be amortized on a straight line basis over its life of 6 years, resulting in an amortization amount of $24,140 for the period ended March 31, 2020 (2019 - $Nil).

The goodwill arose as a result of acquisition of Cantura Naturals Ltd and The Good Company. The Company determined the fair value of Cantura Naturals Ltd. on the acquisition date to be $3,759,646 and recognized an impairment loss on goodwill of $Nil for the three months ended March 31, 2020 (2019 - $Nil). The Company determined the fair value of goodwill acquired from acquisition of The Good Company to be $1,931,199 and recognized an impairment loss on goodwill of $Nil for the three months ended March 31, 2020.

(Expressed in Canadian Dollars)

## 10. INVESTMENTS

**Investment in AAA-H**

Over a period of five years, the Company acquired 100% of AAA-Heidelberg Inc. (“AAA-H”) in stages for a total of $2,935,501. During the year ended December 31, 2018, the Company issued 2,008,236 common shares with a fair value of $351,441 to settle outstanding debts in AAA-H (Note 19).

The intangible asset arising from the acquisition of AAA-H increased during the year ended December 31, 2018 by $2,187,801 from $3,240,416 to $5,427,917 upon the full acquisition of AAA-H before impairment (Note 9). At December 31, 2019 the Company conducted an impairment analysis of the CGU which included the intangible asset as well and the associated property, plant and equipment, and determined that the fair value of the CGU was $1,302,521 as at December 31, 2019. As a result, an impairment of $4,048,380 was recorded for the year ended December 31, 2019. For the period ended March 31, 2020, the fair value of the CGU was $1,302,521 and no impairment was recorded as a result.

Prior to acquiring full control in 2018, 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 2019 and March 31, 2020 | $ | - |

**Investment in Solaris**

In 2017, the Company acquired a 35% interest in Solaris Nutraceuticals Pty Ltd. (“Solaris”) for $257,795 (US$200,000). The Company advanced a further $158,038 and subsequent to these advances, the Company wrote off its investment resulting in a net loss of $339,406, which was recorded prior to January 1, 2018.

During the year-ended December 31, 2018, as part of the settlement with Solaris, Solaris forgave a loan receivable and the Company recorded a gain of $129,950.

**Investment in Eurolife Brands**

In 2017, the Company held an equity investment in EuroLife Brands Inc. (formerly Cannvas MedTech Inc.) (“Eurolife”). On January 16, 2018, the Company completed a Plan of Arrangement (“Arrangement”) with Eurolife whereby the Company distributed 100% of Eurolife shares to the Company’s shareholders on a pro rata basis.

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

**Investment in Natures Hemp**

In 2017, the Company acquired a 100% interest in a private company, Natures Hemp Corp. (“Natures Hemp”). In 2018, Natures Hemp was spun out of the Company by way of a plan of arrangement (the "Arrangement"). whereby the shareholders of the Company received shares in Natures Hemp.

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

(Expressed in Canadian Dollars)

## 10. INVESTMENTS (CONTINUED)

**Investment in Glow Lifetech Ltd.**

During the year ended December 31, 2019, the Company acquired 37.5% interest in a 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 investment was accounted for as an equity interest. Under equity accounting, the Company's share of Glow Lifetech Ltd.'s loss for the year ended December 31, 2019 totaled $82,173. On July 24, 2019, the Company sold its investment in Glow Lifetech Ltd. to JJ Wolf pursuant to a share exchange agreement for $750,000. Prior to the sale, the Company recorded its investment in Glow Lifetech Ltd. at fair value, and recorded a realized gain of $632,173.

**Investment in JJ Wolf Investments Ltd**

During the year ended December 31, 2019, the Company entered into a share exchange agreement (the "Agreement") with JJ Wolf, whereby the Company sold certain assets valued at $4,658,482 to JJ Wolf in exchange for the issuance of 10,000,000 common shares in the capital of JJ Wolf, valued at $2,266,236, resulting in a realized loss on sale of $2,392,236. At March 31, 2020, the Company owns 50% (50% at December 31, 2019) of the common equity of JJ Wolf and the other 50% interest is owned by a former director. The Company commenced equity accounting its investment in JJ Wolf and recorded a loss on its equity investment of $94,525 for the three months ended March 31, 2020 ($576,359 for the year ended December 31, 2019). The investment balance as at March 31 2020 is $1,595,352 ($1,689,877 as at December 31, 2019).

The Company transferred the assets listed below to JJ Wolf:

| Asset | Shares transferred |
|---|---|
| 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. | 10,000,000 shares |
| Empower Clinics Inc. | 10,000,000 warrants |
| 1205293 B.C. Ltd. | 5,000,000 shares |
| 1205293 B.C. Ltd. | 2,500,000 warrants |
| Transnational Cannabis Ltd. | 1,000,000 shares |
| Mindful Capital Inc. | 888,889 shares |
| Eurolife Brands Inc. | 3,616,000 shares |
| Glow Lifetech Ltd. | 3,750,000 shares |

**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, whereby the Company purchased 50% of the outstanding common and preferred shares of Eurasia. On August 21, 2019, the Company issued 15,000,000 common shares with a fair value of $4,050,000 and 1,500,000 finder's shares with a fair value of $405,000 for the common shares of Eurasia. The consideration received had a fair value of $Nil. Therefore, the Company expensed the $4,455,000 as transaction costs in the statement of comprehensive loss for the year ended December 31, 2019.

During the year ended December 31, 2019 the Company advanced $67,599 (US$50,000) to Eurasia as a shareholder loan. The loan is non-interest bearing and is to be repaid out of proceeds from the sale of products before the distribution of any dividends. The balance of this loan is $67,599 as at March 31, 2020 (2019 - $Nil).

(Expressed in Canadian Dollars)

## 11. PROPAGATION SERVICES CANADA INC.

During the year ended December 31, 2018, the Company acquired a 40% interest in PSC, a joint venture which has ownership of the Houwelings Delta Propagation Facility ("Facility"), consisting of 2,200,000 square feet of greenhouse space and 1,700,000 square feet of irrigation space. On April 25, 2019, the Company issued 20,588,235 common shares with a fair value of $6,000,000 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. As a result of granting 10% interest in class B non-voting shares in PSC on March 20, 2019 to DOCC, the Company recorded loss on disposal of $994,672.

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 with a fair value of $12,000,000, which gives the Company an additional 20% equity interest in PSC. The Company now has a 70% equity interest in PSC. As of December 31, 2019, the Company has advanced $33,599,176 to PSC. This advance is unsecured, due on demand and is presented within the equity accounted investment.

Under equity accounting, the Company's share of PSC for the period ended March 31, 2020 totaled $151,783 (2019 - $209,727).

The table below provides a continuity of the PSC investment:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Opening balance | $ 11,474,873 | $ 11,474,873 |
| Acquisition of initial/additional interests | 18,000,000 | 18,000,000 |
| Loss on disposal of interest | (994,672) | (994,672) |
| Advances | 26,475,437 | 22,092,436 |
| Loss on equity investment | (1,710,399) | (1,558,616) |
| **Ending balance** | **$ 53,245,239** | **$ 49,014,021** |

The tables below provides a summary of PSC's financial position and profit and loss:

| Summary statements of financial position as at | March 31, 2020 | December 29, 2019 |
|---|---|---|
| Non-current assets | $ 45,698,963 | $ 44,854,017 |
| Total assets | 46,204,743 | 46,060,351 |
| Current liabilities | 40,841,741 | 40,739,297 |
| Non-current liabilities | 8,161,713 | 7,902,933 |
| Shareholders' deficiency | (2,798,710) | (2,581,879) |
| Total liabilities and shareholders' deficiency | $ 46,204,744 | $ 46,060,351 |

| Summary statements of comprehensive loss for the periods ended | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Operating general and administration expenses | $ 149,641 | $ 264,431 |
| Other income (expenses) | (67,191) | (84,140) |
| Net loss and comprehensive loss | $ 216,832 | $ 348,571 |

## 12. ACQUISITIONS

**OFIG 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 ("Vendor"). As consideration the Company issued 348,109,251 common shares with a fair value of $39,164,369 on July 11, 2019.

- Exclusive Distribution Agreement dated May 8, 2019 between the Vendor and Transnational which gives the Company access to a European distribution network of retail outlets and pharmacies, as well as commercial rights for cannabis processing / finishing at select European-GMP certified facilities. The Company assessed the fair value of this to be $Nil at acquisition date.
- Exclusive Sub-License Agreement dated May 30, 2019 between the Vendor and 1205293 B.C. Ltd. operating as True Focus Canada, which gives the Company rights to True Focus Canada's IP portfolio. The Company assessed the fair value of this to be $Nil.
- 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 assessed the fair value of this to be $Nil at acquisition date.
- 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 an asset acquisition.
- 80% of all of issued and outstanding common shares of Potluck Potions and Edibles Inc. ("Potluck"), a party to an exclusive cannabinoid-infused bottling and manufacturing agreement with a Toronto bottling facility. The Company assessed the fair value of this to be $Nil at acquisition date.
- 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. The Company assessed the fair value of this to be $Nil at acquisition date.
- 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 assessed the fair value of this to be $Nil at acquisition date.
- 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 assessed the fair value of this to be $Nil at acquisition date.
- 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 assessed the fair value of this to be $Nil at acquisition date.
- 100% of all of issued and outstanding common shares of Canutra Naturals Ltd. ("Canutra"), 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 (Note 13).

(Expressed in Canadian Dollars)

## 12. ACQUISITIONS (CONTINUED)

The Company issued a finder's fee of 13,054,097 common shares with a fair value of $4,503,663 to an arm's length party for facilitating the acquisition. The finder fees were expensed as transaction costs. The Company also granted 6,040,000 stock options with a fair value of $1,110,733 and 129,927,633 warrants with a fair value of $25,123,830 as part of the consideration paid to acquire the assets from OFIG. The Company expensed the fair value of the warrants and options 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.

| | **Relative fair value applied $** |
|---|---|
| DOCC (Note 11) | 12,000,000 |
| SUHM (Edibles and Infusions) | 17,440,000 |
| Canutra Naturals Ltd. (Note 13) | 9,724,369 |
| Total | 39,164,369 |

<u>The Edibles and Infusions Corp.</u>

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"). SUHM controls the joint venture. Edibles is developing an edibles manufacturing facility in Winnipeg, Manitoba. This acquisition has been accounted for as an asset acquisition as Edibles does not meet the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company paid common shares with a fair value of $17,440,000.

| **Consideration paid** | **$** |
|---|---|
| Shares issued | 17,440,000 |
| | |
| Implied value of Edibles | 17,478,272 |
| Net assets acquired | |
| Cash | 56,636 |
| Accounts receivable | 100,515 |
| Property, plant and equipment | 847,543 |
| Intangible asset – non-compete agreement (Note 9) | 200,000 |
| Accounts payable and accrued liabilities | (813,334) |
| Total net assets acquired | 391,360 |
| Non-controlling interest | (38,272) |
| Transaction cost | 17,086,912 |
| **Total** | **17,440,000** |

(Expressed in Canadian Dollars)

## 12. ACQUISITIONS (CONTINUED)

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

| | $ |
|---|---|
| Non-controlling interest, December 31, 2018 | - |
| Fair value of non-controlling interest on acquisition | 38,272 |
| Non-controlling interest in loss of Edibles to December 31 2019 | (540,707) |
| Total non-controlling interest, December 31, 2019 | (502,435) |
| Non-controlling interest in loss of Edibles to December 31 2019 | (287,213) |
| Total non-controlling interest, March 31, 2020 | (789,648) |

The tables below provide a summary of Edibles' financial position and profit and loss before intergroup eliminations

| Summary statements of financial position as at | March 31, 2020 $ | December 31, 2019 $ |
|---|---|---|
| Current assets | 278,044 | 248,739 |
| Non-current assets | 8,892,789 | 6,436,043 |
| Total assets | 9,170,833 | 6,684,782 |
| Current liabilities | 13,002,484 | 7,426,563 |
| Non-current liabilities | 116,584 | 1,770,392 |
| Equity attributable to AGRA | (3,158,587) | (2,009,738) |
| Non-controlling Interests | (789,648) | (502,435) |
| Total liabilities and shareholders' deficiency | 9,170,833 | 6,684,782 |

| Summary statements of comprehensive loss for the period ended | March 31, 2020 $ | March 31, 2019 $ |
|---|---|---|
| Operating general and administration expenses | (1,436,063) | - |
| Net loss and comprehensive loss | (1,436,063) | - |

The net change in non-controlling interest ("NCI") is as follows:

| | Edibles | 11122347 | Potluck | Total |
|---|---|---|---|---|
| As at December 31, 2018 | - | - | - | - |
| Initial recognition of NCI | 38,272 | - | - | 38,272 |
| Loss attributable to NCI | (540,707) | (40,295) | (129,100) | (710,102) |
| As at December 31, 2019 | (502,435) | (40,295) | (129,100) | (671,830) |
| Loss attributable to NCI | (287,213) | - | (1,142) | (288,355) |
| As at March 31, 2020 | (789,648) | (40,295) | (130,242) | (960,185) |

**Sanna Health Corp. Acquisition**

On March 10, 2020, the Company closed the acquisition of 100% of the issued and outstanding common shares of Sanna Health Corp. ("Sanna") pursuant to a Share Purchase agreement dated March 10, 2020. As consideration, on March 10, 2020, the Company issued 76,666,666 common shares of the Company with a fair value of $7,900,000.

This acquisition has been accounted for as an asset acquisition as Sanna does not meet the definition of a business under IFRS 3, Business Combinations.

As consideration, the Company paid common shares with a fair value of $7,900,000.

(Expressed in Canadian Dollars)

## 12. ACQUISITIONS (CONTINUED)

| **Consideration paid** | **$** |
|---|---|
| Shares issued | 7,900,000 |
| | |
| Net assets acquired | |
| Cash | 89,247 |
| Accounts receivable | 80,972 |
| Property, plant and equipment | 8,825,833 |
| Intangible asset – license (Note 9) | 6,300,000 |
| Accounts payable and accrued liabilities | (7,396,052) |
| **Total net assets acquired** | **7,900,000** |

The tables below provide a summary of Sanna' financial position and profit and loss before intergroup eliminations

| Summary statements of financial position as at | March 31, 2020<br>$ |
|---|---|
| Current assets | 101,680 |
| Non-current assets | 8,786,363 |
| Total assets | 8,888,043 |
| Current liabilities | 2,355,338 |
| Non-current liabilities | 5,047,265 |
| Equity | 1,485,440 |
| Total liabilities and shareholders' deficiency | 8,888,043 |

| Summary statements of comprehensive loss for the period ended | March 31, 2020<br>$ |
|---|---|
| Operating general and administration expenses | 114,560 |

The accounting for this acquisition has been provisionally determined at March 31, 2020. 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.

## 13. BUSINESS COMBINATION

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 28,186,576 common shares with a fair value of $9,724,369. In accordance with IFRS 3 – Business Combination, the equity consideration on transfer was measured at fair value at the acquisition date, which is the date control was obtained.

(Expressed in Canadian Dollars)

## 13. BUSINESS COMBINATION (CONTINUED)

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:

| **Consideration paid** | **$** |
|---|---|
| Shares issued | 9,724,369 |
| | |
| Net assets acquired | |
| Cash | 129,255 |
| Accounts receivable | 24,032 |
| Inventory | 2,610 |
| Property, plant and equipment | 381,850 |
| Accounts payable and accrued liabilities | (297,393) |
| Total net assets acquired | 240,354 |
| | |
| Balance allocated to | |
| Goodwill (Note 9) | 9,484,015 |
| **Total** | **9,724,369** |

On the date of acquisition, the goodwill amount was impaired by $5,724,369 as the fair value of Canutra was $4,000,000 on the date of acquisition resulting in an ending balance of $3,759,646 at March 31, 2020 ($3,759,646 at December 31, 2019).

<u>The Good Company</u>

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. On February 13, 2020, the Company closed the acquisition of 100% of the issued and outstanding shares of The Good Company GmbH. Total consideration paid includes cash payment of $1,000,000 (paid), issuance of 47,916,667 common shares of the Company and repayment of certain shareholder loans (issued on November 4, 2019) and cash repayment of $1,202,674 Euro on the closing date (paid). The 47,916,667 shares issued were initially measured at $10,302,083 in 2019, then revalued again on acquisition date at $3,473,958, resulting in an adjustment in fair value of $6,828,125.

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 recorded the Earn-Out considerations as contingent consideration payable at February 13, 2020 at its estimated fair value of $5,000,000 and the floor protection clause as a derivative liability with a fair value of $8,026,042. As at March 31, 2020, the estimated fair value of the contingent consideration relating to the Earn-Outs is determined to be $5,000,000, and the estimated fair value of the floor protection derivative liability is determined to be $8,026,042 resulting $Nil change in fair value. The derivative liability is subsequent measured at fair value with changes in profit and loss. The Company also agreed to make cash contributions to The Good Company totaling $1,200,000.

(Expressed in Canadian Dollars)

## 13. BUSINESS COMBINATION (CONTINUED)

| **Consideration paid** | **$** |
|---|---|
| Cash | 1,000,000 |
| Repayment of shareholder loans | 1,763,120 |
| Shares issued | 3,473,958 |
| Fair value of earn-out contingent consideration | 5,000,000 |
| Fair value of floor protection derivative | 8,026,042 |
| Total | 19,263,120 |

| | |
|---|---|
| Net assets acquired | |
| Cash | 157,668 |
| Intangible assets | 7,013 |
| Prepaid expenses | 29,233 |
| Accounts receivable | 157,822 |
| Inventory | 127,925 |
| Property, plant and equipment | 30,220 |
| Accounts payable and accrued liabilities | (558,750) |
| Total net assets acquired | (48,869) |
| | |
| Balance allocated to | |
| Distribution Licenses (Note 9) | 15,642,712 |
| Customer Relationships (Note 9) | 869,039 |
| Brand (Note 9) | 869,039 |
| Goodwill (Note 9) | 1,931,199 |
| **Total** | **19,263,120** |

The accounting for this acquisition has been provisionally determined at March 31, 2020. 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.

## 14. CONVERTIBLE DEBENTURES RECEIVABLE

On December 30, 2019, the Company purchased 20,000 units ("Units") of senior unsecured convertible units of Transnational from three arm's length parties for $23,682,600 (US$18,000,000). The convertible debenture bears interest at 10% and expires on March 12, 2021. Each Unit consists of US$1,000 principal amount of convertible debenture and 1,428 common share purchase warrants of the Company. Each convertible debenture warrant is exercisable into one common share of Transnational at an exercise price of US $0.50 for a period of two years from the closing date. The convertible debentures are convertible into the number of common shares equal to the principal amount divided by US$0.38 per debenture share. Upon conversion, the holder shall receive a cash payment equal to the accrued and unpaid interest due on the convertible debenture.

The initial fair value of the convertible debenture was determined to be $24,636,507 and the fair value of the attached warrants were determined to be $20,423. As at March 31, 2020, the fair value of the convertible debenture was determined to be $27,801,528 ($24,636,507 as at December 31, 2019) and the warrants were $20,423 ($20,423 as at December 31, 2019) which is recorded in investments. The fair value of the instruments is estimated using the binomial lattice method, using a risk-free rate of 1.566%, volatility of 71%, discount for lack of marketability of 40% and credit rating of CCC. The Company recorded a gain on fair value movements on investment of $3,165,021 as a result.

(Expressed in Canadian Dollars)

## 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Accounts payable | $ 5,211,173 | $ 1,932,845 |
| Mortgage payable | 1,290,000 | - |
| Amount due to related parties (note 19) | 559,493 | 123,341 |
| Accrued liabilities | 326,191 | 351,191 |
| | **$ 7,386,857** | **$ 2,407,377** |

The Company acquired two mortgages payable for $1,200,00 (“Frist Mortgage) which bears interest at 10% and $100,000 (“Second Mortgage) which bears interest at 12% per annum. The mortgages relate to the building owned by the Company in Ontario. The First Mortgage matures on October 1, 2021 and the Second Mortgage matures on October 23, 2021. As at March 31, 2020, the total amount of mortgages payable outstanding including accrued interest is $1,290,000.

## 16. LEASE LIABILITY

Manitoba Lease

The Company recorded a right-of-use asset for the lease facility in Manitoba as at December 31, 2019 (Note 8).The Company recognized right-of-use asset of $1,931,548 and lease liability of $1,931,548.

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 11.34%, which is the Company’s incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the period ended March 31, 2020:

| | $ |
|---|---|
| **Balance, December 31, 2018** | **-** |
| Lease additions | 1,931,548 |
| Lease payments | (154,755) |
| Interest expense on lease liabilities | 106,939 |
| **Balance, December 31, 2019** | **1,883,732** |
| Lease additions | - |
| Lease payments | (77,378) |
| Interest expense on lease liabilities | 52,438 |
| **Balance, March 31, 2020** | **1,858,792** |
| Current portion | $(116,584) |
| **Long-term portion** | **$1,742,208** |

The lease liabilities are payable as follows:

| | | | **2020** |
|---|---|---|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than 1 year | 335,303 | 218,720 | 116,583 |
| Between 1 and 5 years | 1,263,833 | 658,653 | 605,180 |
| More than 5 years | 1,418,588 | 281,560 | 1,137,028 |
| Balance, end of year | 3,017,724 | 1,158,933 | 1,858,791 |
| Long term lease liabilities | 2,682,421 | 940,213 | 1,742,208 |

(Expressed in Canadian Dollars)

## 16 LEASE LIABILITY (Continued)

Ontario Lease

The Company acquired from Sanna a right-of-use asset for the lease manufacturing facility in Ontario in the interim condensed consolidated statement financial position as at March 31, 2020. The Company recorded right-of-use asset of $3,197,972 and lease liability of $3,365,097 on acquisition date (Note 8).

At the commencement date of the lease, the lease liability was measured as the present value of the future lease payments that were not paid at that date. These lease payments are discounted using a discount rate of 10.58%, which is the Company's incremental borrowing rate.

The following is a continuity schedule of lease liabilities for the period ended March 31, 2020:

| | $ |
|---|---|
| **Balance, December 31, 2018 and 2019** | **-** |
| Lease acquired from acquisition | 3,365,096 |
| Interest expense on lease liabilities | 28,321 |
| Lease payments | (31,652) |
| **Balance, March 31, 2020** | **3,361,765** |
| Current portion | $(379,834) |
| **Long-term portion** | **$2,981,931** |

The lease liabilities are payable as follows:

| | | | **2020** |
|---|---|---|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments |
| Less than 1 year | 379,834 | 337,590 | 42,244 |
| Between 1 and 5 years | 1,519,336 | 1,300,683 | 218,653 |
| More than 5 years | 6,063,156 | 2,962,289 | 3,100,868 |
| Balance, end of year | 7,962,326 | 4,600,562 | 3,361,765 |
| Long term lease liabilities | 7,582,492 | 4,262,972 | 3,319,520 |

## 17. CONVERTIBLE DEBENTURE

During the year ended December 31, 2019, the Company closed a non-brokered private placement offering of 30,000 unsecured convertible debentures for gross proceeds of $30,000,000 from three arm's length parties. 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 March 12, 2021.

## 17. CONVERTIBLE DEBENTURE (CONTINUED)

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.

The Company accounted for the convertible debentures issued for cash as a hybrid financial instrument with separate debt and derivative liability components. The derivative liability is recorded at fair value and deducted from the face value of the debt to arrive at the liability component which is recorded at amortized cost and will be accreted to the face value over the life of the convertible note.

The fair value of the liability component at December 31, 2019 was estimated to be $28,191,802 and the fair value of the derivative liability at December 31, 2019 was estimated to be of $1,465,129. The Company also expensed $26,551 of transaction cost associated with issuing the debentures. The Company utilized the financing to acquire convertible debentures (Note 14) from the same three arm's length parties. The net cash received following both transactions is approximately $4,973,450. At March 31, 2020, the fair value of the liability component was estimated to be $29,532,100 resulting in an interest expense of $1,340,297. The fair value of the derivative liability was estimated to be $1,465,129 at March 31, 2020.

After initial recognition the liability component is carried on an amortized cost basis and will be accreted to its face amount over the term to maturity of the convertible debenture at an effective interest rate of 15%.

On October 25, 2019, the Company entered into a loan agreement with a private company to borrow an aggregate principal amount of a maximum of $12,500,000. The loan bears an interest of 7.5% per annum and matures on June 30, 2020. The loan, including accrued interest and fees outstanding is convertible at the election of the lender into common shares of the Company at any time before the maturity date at the maximum allowable discount. As at December 31, 2019, the Company borrowed $7,513,592 principal amount. Subsequent to the year end, the maximum amount of the loan was increased to $20,000,000. This loan was settled for private placement units that closed after period end (Note 22).

The loan conversion feature does not meet the fixed for fixed criteria, the entire loan is classified as a liability. At March 31, 2020, the loan and accrued interest has a fair value of $16,124,393 ($7,569,106 as at December 31, 2019).

## 18. LOAN PAYABLE

The Company acquired $350,000 promissory note payable ("Loan") upon acquisition of Sanna. The Loan is non-interest bearing and is due on demand. At March 31, 2020, the entire balance of $350,000 is due and outstanding.

## 19. SHARE CAPITAL

### a) Common shares

**Authorized:**
Unlimited number of common shares without par value.

**Issued:**

On January 6, 2020, the Company issued 800,000 common shares with a fair value of $68,000 pursuant to a supply agreement entered into with Vendure Genetics Labs Inc. dated December 26, 2018 and amended on December 16, 2019 for the supply of certain cannabis plants and intellectual property rights.

## 19. SHARE CAPITAL (CONTINUED)

**Issued (continued):**

On January 17, 2020, the Company issued 58,823,529 shares with a fair value of $5,882,353 for transaction cost related to investment in SUHM.

On January 28, 2020, the Company issued 6,666,667 common shares of the Company upon conversion of the Special Warrants issued on September 19, 2019 (Note 18).

On February 13, 2020, the Company recorded fair value adjustments on shares issued for acquisition of The Good Company of $6,828,125 (Note 13).

On March 10, the Company issued 76,666,666 common shares of the Company with a fair value of $7,900,000 for the acquisition of Sanna Health Corp. (Note 12).

On March 10, 2020, the Company closed the acquisition of 100% of the issued and outstanding common shares of Sanna Health Corp. pursuant to a Share Purchase agreement dated March 10, 2020. As consideration, on March 10, 2020, the Company issued 76,666,666 common shares of the Company with a fair value of $4,600,000.

During the year ended December 31, 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, which was recorded as consulting fees.

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 $6,000,000 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 former related parties, who assisted with securing investment in PSC.

On April 25, 2019 the Company issued 281,690 common shares with a fair value of $146,479 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 two tranches of 1,250,000 common shares each 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.

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 Transnational (Note 4).

On July 11, 2019, the Company issued 348,109,251 common shares with a fair value of $39,164,369 and 13,054,097 common shares with a fair value of $4,503,663 for the acquisition certain assets from OFIG (Note 12).

On August 12, 2019, the Company issued 319,551 common shares with a fair value of $94,268 to settle $111,805 of debt for past consulting and other services provided, resulting in a gain on settlement of $17,537.

## 19. SHARE CAPITAL (CONTINUED)

**Issued (continued):**

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

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.

On November 4, 2019, the Company issued 47,916,667 common shares (which were held in escrow until completion) with a fair value of $10,302,083 for the acquisition of The Good Company (Note 13). 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.

On November 15, 2019, the Company issued 2,000,000 common shares with a fair value of $380,000 for consulting services provided.

On December 2, 2019, Company issued 4,250,000 common shares with a fair value of $680,000 for consulting services provided.

During the year ended December 31, 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 year ended December 31, 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 DOCC 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 10).

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 10).

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 December 31, 2019 and March 31, 2020, the Company had $Nil in subscription receivable.

(Expressed in Canadian Dollars)

## 19. SHARE CAPITAL (CONTINUED)

### b) Warrants outstanding

| | Number of warrants | | Weighted average exercise price |
|---|---|---|---|
| **At December 31, 2018** | 14,607,700 | $ | 0.40 |
| Warrants exercised | (13,147,700) | | 0.40 |
| Warrants granted | 129,927,633 | | 0.39 |
| Warrants expired | (1,460,000) | | 0.40 |
| **At December 31, 2019 and March 31, 2020** | 129,927,633 | $ | 0.39 |

### 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 10, 2018 | September 10, 2020 | 500,000 | | 0.128 |
| October 31, 2018 | October 31, 2020 | 1,250,000 | | 0.142 |
| May 21, 2019 | May 21, 2024 | 2,200,000 | | 0.460 |
| May 30, 2019 | May 30, 2024 | 1,000,000 | | 0.390 |
| August 1, 2019 | August 1, 2024 | 2,850,000 | | 0.310 |
| July 11, 2019 | May 17, 2024 | 4,090,000 | | 0.330 |
| January 6, 2020 | January 6, 2022 | 100,000 | | 0.150 |
| January 30, 2020 | January 30, 2022 | 15,000,000 | | 0.150 |
| January 31, 2020 | January 31, 2022 | 1,000,000 | | 0.100 |
| **Balance at March 31, 2020** | | 27,990,000 | $ | 0.220 |

| | Number of options | Weighted average exercise price |
|---|---|---|
| **At December 31, 2018** | 33,812,500 | 0.138 |
| Options cancelled and expired | (437,500) | 0.128 |
| Options exercised | (26,875,000) | 0.133 |
| Options granted | 65,440,000 | 0.404 |
| **At December 31, 2019** | 71,940,000 | 0.380 |
| Options cancelled and expired | (60,050,000) | 0.410 |
| Options granted | 16,100,000 | 0.150 |
| **At March 31, 2020** | 27,990,000 | 0.370 |

The weighted average remaining life of the options outstanding is 2.74 years (December 31, 2019 – 2.98 years)

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%.

## 19. SHARE CAPITAL (continued)

### c) Stock options outstanding (continued)

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%.

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 a one-year term expiring March 15, 2020. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $4,333,476 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 115%.

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 $594,888 assuming an expected life of 1.5 years, a risk-free interest rate of 1.47%, an expected dividend rate of 0.00%, and an expected annual volatility of 121%.

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 $1,110,733 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 113%.

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 $4,281,838 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 111%.

During the year ended December 31, 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.

On January 6, 2020, the Company granted 100,000 stock options to consultants of the Company with an exercise price of $0.15 per option expiring January 6, 2022. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $2,451 assuming an expected life of 2.0 years, a risk-free interest rate of 1.63%, an expected dividend rate of 0.00%, and an expected annual volatility of 108%.

**19. SHARE CAPITAL (continued)**

**c) Stock options outstanding (continued)**

On January 30, 2020, the Company granted 15,000,000 stock options to consultants of the Company with an exercise price of $0.15 per option expiring January 30, 2022.These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $416,888 assuming an expected life of 2.0 years, a risk-free interest rate of 1.47%, an expected dividend rate of 0.00%, and an expected annual volatility of 108%.

On January 31, 2020, the Company granted 1,000,000 stock options to consultants of the Company with an exercise price of $0.10 per option expiring January 31, 2022. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $47,888 assuming an expected life of 2.0 years, a risk-free interest rate of 1.43%, an expected dividend rate of 0.00%, and an expected annual volatility of 109%.

During the three months ended March 31, 2020, $Nil options (2019 – 17,125,000 options) were exercised for gross proceeds of $Nil (2019 - $1,621,250).

**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. The Company recorded $2,000,000 warrant reserve for the issuance of special warrants. During the period ended March 31, 2020, all of the special warrants were exercised, resulting in transferring of $2,000,000 from warrant reserve to share capital.

**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.

**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.

**g) Escrowed shares**

As at March 31, 2020, 124,483,333 (47,917,000 as at December 31, 2019) shares were held in escrow.

(Expressed in Canadian Dollars)

## 20. 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 for the period ended March 31, 2019 and 2020:

| Three months ended March 31, 2020 | Consulting and Management Fees | Share-based Compensation |
|---|---|---|
| Legal fees paid/accrued to a private company controlled by a director | 6,141 | - |
| Consulting fees paid/accrued to a director | 30,000 | - |
| Consulting fees paid/accrued to a company controlled by the former Corporate Secretary | 34,978 | - |
| Consulting fees paid/accrued to a private company controlled by the CFO | 25,500 | - |
| Consulting fees paid/accrued to a private company controlled by the CEO | 60,465 | - |
| | $157,084 | $ - |

| Three months ended March 31, 2019 | Consulting and Management Fees | Share-based compensation |
|---|---|---|
| Consulting fees paid/accrued to a private company controlled by the former CFO | $ 21,555 | $ - |
| Consulting fees paid/accrued to a private company controlled by the former CEO | 189,000 | - |
| Consulting fees paid/accrued to a former director | - | 730,011 |
| | $ 210,555 | $ 730,011 |

Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand. At March 31, 2020, $559,493 (December 31, 2019 - $123,341) is owing to related parties for unpaid fees which are included in accounts payable and accrued liabilities. Refer also to Note 15.

## 21. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the three months ended March 31, 2020 and year ended December 31, 2019 are as follows:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Fair value of transfer on exercise of stock options and warrants | $ 10,406,747 | $ 2,054,266 |
| Shares issued for acquisitions and investments | 7,900,000 | 75,466,452 |
| Shares issued for debt settlement | - | 94,268 |
| Shares issued for transaction costs | 5,882,353 | 10,813,663 |
| Shares and options issued for services | 68,000 | 8,530,229 |

(Expressed in Canadian Dollars)

## 22. 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, marketable securities are measured using level 1 inputs.

The following is an analysis of the Company's financial assets measured at fair value as at and March 31, 2020 and December 31, 2019:

| | As at March 31, 2020 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Cash | $ 598,068 | - | - |
| Convertible debenture receivable | - | $ 27,801,528 | - |
| Derivative liability | - | - | $ 9,491,171 |
| Investments | - | - | $ 88,022 |

| | As at December 31, 2019 | | |
|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** |
| Cash | $ 4,076,295 | - | - |
| Marketable securities | - | - | - |
| Convertible debenture receivable | - | $ 24,636,507 | - |
| Derivative liability | - | - | $ 1,465,129 |
| Investments | - | - | $ 88,022 |

### 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, convertible debentures receivable and loans receivable. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada.

The loans receivable and convertible debentures receivable expose the Company to credit risk and the Company has limited this exposure by securing one of the loans with collateral; the other loan is unsecured. The convertible debentures receivable is convertible into shares of the entity.

**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.

## 22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

**Liquidity risk (continued)**

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at March 31, 2020 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.

**(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 not exposed to interest rate risk as its agreements are all done with fixed interest rates.

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 is exposed to foreign currency risk as its $18,000,000 note receivable with Transnational is denominated in USD. A 5% change in USD rate could result in a gain or loss of $900,000.

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.

(Expressed in Canadian Dollars)

## 23. COMMITMENTS

During the year ended December 31, 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 $200,000 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.

During the year ended December 31, 2019, the Company entered into a Lease Agreement for a leased facility in Manitoba. The lease expires on May 31, 2029 and has the following estimated annual payments:

| | |
|---|---|
| 2020 – May 2024 | $309,510 per annum |
| June 2024 – May 2029 | $340,461 per annum |

## 24. EVENTS AFTER REPORTING PERIOD

Subsequent to quarter end:

a) On April 7, 2020, the Company issued 3,731,846 common shares to settle debt of $362,508.

b) On April 30, 2020, the Company granted 95,000,000 stock options to consultants and officers of the Company with an exercise price of $0.075 per option expiring on April 30, 2025.

c) On April 30, 2020, the Company closed two non-brokered private placement offering of 266,666,667 units of the Company and 20,700,000 units of the Company at a price of $0.075 per Unit for gross proceeds of $20,000,000 and $1,552,500 respectively. Each Unit shall consist of one common share and one transferable share purchase warrant. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share. The $20,000,000 tranche, consisted of the settlement of a convertible debenture (Note 17) and debt owed to arm's length parties of $17,666,208 and $2,333,792 respectively.

d) On May 4, 2020, the Company issued 2,692,905 common shares with a fair value of $201,967.87 to settle debt of $201,967.87 with certain creditors for past consulting and other services provided to the Company.

e) On June 5, 2020, the Company issued 22,802,938 common shares with a fair value of $1,500,000 for consulting services

f) On July 8, 2020, the Company completed a non-brokered private placement offering of 11,612,000 units of the Company at a price of $0.075 per Unit for gross proceeds of $870,900. Each Unit consists of one common share and one transferable share purchase warrant. Each warrant is exercisable to purchase one common share of the Company for a period of five years at a price of $0.10 per share.