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

Consolidated Financial Statements
Year Ended December 31, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AgraFlora Organics International Inc.:

Opinion

We have audited the consolidated financial statements of AgraFlora Organics International Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC
May 2, 2019

AGRAFLORA ORGANICS INTERNATIONAL INC.
(FORMERLY PUF VENTURES INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash		$ 10,718,888	$ 3,791,249
Loan receivable	6	253,333	210,100
Accounts receivable	5	253,509	131,954
Marketable securities	4	21,875	312,500
Prepaids		148,748	109,162
		11,396,353	4,554,965
Investments	10,11	11,656,240	181,367
Property and equipment	8	1,591,099	1,100,249
Intangible asset	9	5,350,901	3,240,416
TOTAL ASSETS		**$ 29,994,593**	**$ 9,076,997**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	12,15	$ 324,632	$ 871,757
Loans payable	13,15	-	639,571
TOTAL CURRENT LIABILITIES		**324,632**	**1,511,328**
SHAREHOLDERS' EQUITY			
Share capital	14	48,624,710	22,252,798
Subscriptions received (receivable)	14	(61,000)	149,200
Reserves	14	3,385,740	1,665,620
Accumulated other comprehensive loss		-	(37,500)
Deficit		(22,279,489)	(17,384,754)
Attributable to shareholders		29,669,961	6,645,364
Non-controlling interest	9	-	920,305
TOTAL SHAREHOLDERS' EQUITY		**29,669,961**	**7,565,669**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 29,994,593**	**$ 9,076,997**

Nature and continuance of operations (Note 1)
Subsequent events (Note 20)

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Year ended December 31, 2018	Year ended December 31, 2017
Expenses			
Accounting and auditing		$ 70,498	$ 29,389
Consulting and management	15	2,866,175	843,542
Development and compliance		84,558	70,901
Director fees	15	-	22,500
Amortization	8	12,817	3,938
Investor communications		704,210	372,836
Legal		74,720	24,587
Office and sundry		101,348	161,573
Regulatory and transfer agent fees		225,967	128,156
Share-based compensation	14,15	2,073,494	934,159
Travel and business development		153,322	72,339
		(6,367,109)	(2,668,922)
Other items			
Loss on write-off of Solaris	10	(339,406)	-
Unrealized loss on marketable securities	4	(290,624)	-
Cost of acquisition of Natures Hemp	10	-	(544,283)
Gain on revaluation of AAA-H	9	-	589,025
Gain on debt settlement	14	975,179	-
Gain on write-off of loan payable	13	129,950	-
Gain (loss) on change in control of Cannvas	10	(129,662)	543,675
Gain on loss of control of Natures Hemp	10	310,437	-
Share of loss on equity accounted investments		(31,967)	(180,253)
Impairment of intangible asset	9	(77,016)	-
Gain on sale of exploration and evaluation assets	7	-	141,157
Net loss for the year		(5,820,218)	(2,119,601)
Unrealized loss on marketable securities	4	-	(37,500)
Comprehensive loss for the year		**$ (5,820,218)**	**$ (2,157,101)**
Net loss attributable to:			
Shareholders of Agraflora Organics International Inc.		$ (5,741,082)	$ (2,039,680)
Non-controlling interests	9	(79,136)	(79,921)
		$ (5,820,218)	**$ (2,119,601)**
Comprehensive loss attributable to:			
Shareholders of Agraflora Organics International Inc.		$ (5,741,082)	$ (2,077,180)
Non-controlling interests		(79,136)	(79,921)
		$ (5,820,218)	**$ (2,157,101)**
Net loss per share – basic and diluted		**$ (0.02)**	**$ (0.01)**
Weighted average number of common shares outstanding		**304,393,955**	**215,700,995**

AGRAFLORA ORGANICS INTERNATIONAL INC.
(FORMERLY PUF VENTURES INC.)
Consolidated Statement of Changes in Equity
(Expressed in Canadian Dollars)

	Share capital								
	Number of shares	Amount	Subscriptions received / (receivable)	Share-based payment reserves	Warrant reserve	Non-controlling interest	Deficit	AOCI	Total
Balance at December 31, 2016	**160,522,775**	**$ 15,551,901**	**$ -**	**$ 522,370**	**$ 883,586**	**$**	**$ (15,517,684)**	**$ -**	**$ 1,440,173**
Net and comprehensive loss for the year	-	-	-	-	-	(79,921)	(2,039,680)	(37,500)	(2,157,101)
Shares issued for cash (Note 14)	107,030,100	5,381,215	-	-	71,862	-	-	-	5,453,077
Subscription received	-	-	149,200	-	-	-	-	-	149,200
Shares issued for acquisition	8,500,015	800,001	-	-	-	-	-	-	800,001
Non-controlling interest on consolidation of AAA-H (Note 14)						1,000,226			1,000,226
Fair value of stock options exercised/cancelled/expired (Note 14)	-	420,196	-	(592,806)	-	-	172,610	-	-
Fair value of warrants exercised	-	99,485			(99,485)				-
Share-based compensation (Note 14)	-	-	-	880,093	-	-	-	-	880,093
Balance at December 31, 2017	**276,052,890**	**22,252,798**	**149,200**	**809,657**	**855,963**	**920,305**	**(17,384,754)**	**(37,500)**	**7,565,669**
Reallocation on adoption of IFRS 9	-	-	-	-	-	-	(37,500)	37,500	-
Net and comprehensive loss for the year	-	-	-	-	-	(79,136)	(5,741,082)	-	(5,820,218)
Subscriptions received / receivable	-	-	61,000	-	-	-	-	-	61,000
Non-controlling interest on consolidation of AAA-H (Note 9)	-	-	-	-	-	(841,169)	841,169	-	-
Options exercised (Note 14)	5,400,000	371,200	-	-	-	-	-	-	371,200
Warrants exercised (Note 14)	25,405,150	1,691,076	(149,200)	-	-	-	-	-	1,541,876
Fair value of stock options exercised / expired (Note 14)	-	275,559	-	(314,875)	-	-	39,316	-	-
Fair value of warrants exercised / expired	-	35,136		-	(38,499)	-	3,363	-	-
Shares issued for debt settlement (Note 14)	2,008,236	351,441	-	-	-	-	-	-	351,441
Shares issued for acquisition (Note 9)	12,500,000	2,187,500	-	-	-	-	-	-	2,187,500
Shares issued for equity participation (Note 11)	44,582,040	20,000,000	-	-	-	-	-	-	20,000,000
Shares issued for service (Note 14)	10,000,000	1,460,000	-	-	-	-	-	-	1,460,000
Share-based compensation (Note 14)	-	-	-	2,073,494	-	-	-	-	2,073,494
Balance at December 31, 2018	**375,948,316**	**$ 48,624,710**	**$ 61,000**	**$ 2,568,276**	**$ 817,464**	**$ -**	**$ (22,279,488)**	**$ -**	**$ 29,669,961**

AGRAFLORA ORGANICS INTERNATIONAL INC.
(FORMERLY PUF VENTURES INC.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended	
	December 31, 2018	**December 31, 2017**
Operating activities		
Net loss for the year	$ (5,820,219)	$ (2,119,601)
Adjustments for:		
Amortization	12,817	3,938
Unrealized loss on marketable securities	290,624	-
Gain on write-off of loan payable	(129,950)	-
Gain on settlement of debt	(975,179)	-
Shares issued for services	1,460,000	-
Accrued interest	(3,333)	-
Loss on spin-out of Cannvas	129,662	-
Loss on write-off of Solaris	339,406	-
Impairment of intangible asset	77,016	-
Gain on change to consolidation of AAA-H	-	(589,024)
Share of equity accounted investment losses	31,967	180,253
Gain on conversion of investment to equity	-	(543,675)
Gain on disposition of exploration and evaluation	-	(141,157)
Acquisition cost	-	544,282
Share-based compensation	2,073,494	934,159
Changes in non-cash working capital items:		
Accounts receivables	(121,555)	(181,408)
Prepaids	(39,586)	(46,662)
Accounts payable and accruals	(151,684)	(107,126)
Net cash flows used in operating activities	(2,826,520)	(2,066,027)
Financing activities		
Loans payable	-	149,950
Proceeds on issuance of common shares, net of subscriptions received / receivable	22,354,072	5,602,277
Net cash flows provided by financing activities	22,354,072	5,752,227
Investing activities		
Expenditures on equipment	(503,667)	(126,444)
Expenditures on mineral properties	-	(54,543)
Loan receivable	(250,000)	-
Investment in and advances to Propagation Services Canada Inc.	(11,688,207)	-
Investment in Solaris	(158,039)	(257,795)
Cash received on acquisition of control	-	47,085
Net cash flows used in investing activities	(12,599,913)	(391,697)
Change in cash	6,927,639	3,294,503
Cash, beginning	3,791,249	496,746
Cash, ending	**$ 10,718,888**	**$ 3,791,249**

Non-cash transactions (Note 16)

(Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

AgraFlora Organics International Inc. (formerly PUF Ventures Inc.) (the “Company” or “Agraflora”) was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia). The diversified Company focused exclusively on the international cannabis industry. It owns an indoor cultivation operation in London, Ontario and is a joint venture partner in Propagation Service Canada Inc., a 2,200,000 sq. ft. greenhouse complex in Delta, BC. During the year ended December 31, 2018, the Company changed is name from PUF Ventures Inc. to Agraflora Organics International Inc. and completed a share split on a 5 for 1 basis. All share capital numbers have been restated to reflect the share split. The Company's corporate office is located at Suite 804, 750 Pender Street, Vancouver, British Columbia V6C 2T7. The Company is listed on the Canadian Securities Exchange (“CSE”).

These consolidated 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 December 31, 2018, the Company has working capital of $11,071,721 (2017 –$3,043,637), and an accumulated deficit of $22,279,489 (2017 - $17,384,754).

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 consolidated 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

The consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were approved by the Board of Directors and authorized for issue on May 2, 2019.

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

	Ownership Interest	Jurisdiction
AAA Heidelberg Inc.	2018 - 100%; 2017 – 54.49%	Canada
Natures Hemp Corp.	2018 – 0%; 2017 - 100%	Canada

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

2. BASIS OF PREPARATION (continued)

Presentation and functional currency

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

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

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

Significant accounting judgments and estimates

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

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

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

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

The continuation of the Company as a going concern requires judgment and factors used are disclosed in Note 1.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

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

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

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

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

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

Equity accounted investments

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

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

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

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

Foreign currency translation

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

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

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

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

Share capital

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Share-based payment transactions

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

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

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

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

Income taxes

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Loss per share

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

Segment reporting

The Company operates in the cannabis segment in Canada and Colombia.

Newly adopted accounting standards

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking "expected loss" impairment model.

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

(i) Classification

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original Classification IAS 39	New Classification IFRS 9
Cash	Amortized cost	Amortized cost
Loan receivables	Amortized cost	Amortized cost
Marketable securities	FVTOCI	FVTPL
Accounts payable	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost

The adoption of IFRS 9 resulted in a reclassification of $37,500 from accumulated comprehensive income to the opening accumulated deficit as of January 1, 2018.

(ii) Measurement

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

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

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

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

(iii) Impairment of financial assets at amortized cost

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

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Derecognition

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

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

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

Future accounting standards, amendments and interpretations

IFRS 16 “Leases” replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019. The Company does not expect this new standard to have an impact on its financial statements.

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

4. AVAILABLE FOR SALE INVESTMENT

During the year ended December 31, 2017, the Company received 625,000 common shares of Volt Energy Inc. on the sale of the Company’s Lac Saint Simon Lithium project. The shares were initially valued at $350,000. As at December 31, 2017, the shares had a fair value of $312,500 and the Company recognized an unrealized loss of $37,500 during 2017, and as at December 31, 2018, the shares had a fair value of $21,875 and the Company has an unrealized loss of $290,625 during 2018.

5. RECEIVABLE

	December 31, 2018	December 31, 2017
Government sales tax recoverable	$ 253,509	$ 131,954

(Expressed in Canadian Dollars)

6. LOANS RECEIVABLE

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

Short-term loans outstanding at December 31, 2017 of $210,100 were repaid during the year ended December 31, 2018.

7. EXPLORATION AND EVALUATION ASSETS

Lac Saint Simon, Quebec

During the year ended December 31, 2016, the Company acquired a 100% interest in certain mineral claims located in Quebec, Canada, known as the Lac Saint Simon Lithium through the issuance of 10,000,000 common shares of the Company for total value of $130,000.

During the year ended December 31, 2017, the Company incurred additional field costs of $54,543 on the property. The Company sold its interest in the property to Volt Energy Inc. for 625,000 common shares of Volt Energy Inc. and recognized a gain on disposition of $141,157 (Note 4).

8. PROPERTY AND EQUIPMENT

Property and equipment is held by AAA-H. The building is currently not available for use and has therefore not been amortized. The opening balances have been shown as of the date of transition to the consolidation method of accounting.

	Furniture & Equipment	Building	Computers	Total
Cost:				
At May 7, 2017	$ 28,055	$ 952,988	$ 8,423	$ 989,466
Additions	-	131,530	-	131,530
December 31, 2017	28,055	1,084,518	8,423	1,120,996
Additions	27,900	406,256	69,506	503,662
December 31, 2018	55,955	1,490,774	77,929	1,624,658
Amortization:				
At May 7, 2017	(11,896)	-	(4,914)	(16,810)
Charge for the year	(2,885)	-	(1,053)	(3,938)
At December 31, 2017	(14,781)	-	(5,967)	(20,748)
Charge for the year	(5,375)	-	(7,436)	(12,811)
December 31 2018	$ (20,156)	$ -	$ (13,403)	$ (33,559)
Net book value:				
December 31, 2017	$ 13,274	$ 1,084,518	$ 2,456	$ 1,100,249
December 31, 2018	$ 35,799	$ 1,490,774	$ 64,526	$ 1,591,099

(Expressed in Canadian Dollars)

9. INVESTMENT IN AAA-H

On March 26, 2014, the Company acquired a 16.5% interest in AAA-H for $120,000. The Company executed a Share Exchange Agreement effective January 26, 2015 with the principals of AAA-H whereby the Company could acquire the remaining 83.5% interest subject to certain conditions including the grant of a Marijuana for Medical Purposes Regulations ("MMPR") license by issuing up to 22,937,500 common shares of the Company subject to CSE escrow policies. The common shares were issued in stages. On February 24, 2015, the first tranche of 5,437,500 common shares with a fair value of $348,000 representing an additional 19.79% interest was completed. On February 24, 2015, the Company commenced equity accounting its investment in AAA-H. On October 30, 2015, the second tranche of 2,500,000 common shares, with a fair value of $80,000 representing an additional 9.1% interest was completed. On May 7, 2017, the third tranche of 2,500,000 common shares, with a fair value of $200,001 representing an additional 9.1% interest was completed. The Company then had a 54.49% ownership interest in AAA-H and as of that date commenced consolidating AAA-H as it held a controlling interest in AAA-H. Under equity accounting, the Company's share of AAA-H's loss for the year prior to consolidation totaled $103,825. As a result of the transition to the consolidation method, the Company recorded a non-controlling interest of $1,000,226. On December 19, 2018, the Company acquired the remaining 45.51% interest in AAA-H by issuing 12,500,000 common shares with a fair value of $2,187,500. The Company now has 100% ownership interest in AAA-H. In addition, the Company issued a further 2,008,236 common shares with a fair value of $351,441 to settle outstanding debts in AAA-H (Note 14).

Prior to obtaining control in fiscal 2017, the Company recorded its investment in AAA-H at fair value, resulting in a gain of $589,025.

Fair value of shares issued to acquire controlling interest in AAA-H in 2017	$ 200,001
Implied value of AAA-H	$ 2,197,815
Allocated to	
Cash	2,186
Prepaids	5,000
Property, plant and equipment	972,656
Accounts payable and other liabilities	(2,022,443)
Net liabilities	(1,042,601)
Allocated to intangible asset	$ 3,240,416

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

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

Non-controlling interest, December 31, 2016	$ -
Fair value of non-controlling interest on transition to consolidation method of accounting	1,000,226
Non-controlling interest in loss of AAA-H to December 31, 2017	(79,921)
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	$ -

10. INVESTMENTS

Investment In Solaris

By an agreement dated July 12, 2017, as modified by agreements dated October 16, 2017 and October 30, 2017, the Company acquired a 35% interest in a newly formed Australian company, Solaris Nutraceuticals Pty Ltd. ("Solaris"). To acquire its interest, the Company paid $257,795 (US$200,000) to Solaris. The investment was accounted for as an equity interest. Under equity accounting, the Company's share of Solaris' loss for the year ended December 31, 2017 totaled $76,428.

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

Investment In Cannvas

On May 12, 2015, the Company acquired 100% of Cannvas MedTech Inc. ("Cannvas"). The purchase price for the Cannvas shares was an aggregate of 8,750,000 common shares of the Company. Finders' units consisting of 875,000 common shares and 875,000 warrants were issued on closing. The entire value of the transaction was allocated to intellectual property on acquisition.

On October 20, 2017, Cannvas completed a private placement and the Company's interest in Cannvas was diluted to 32%. As a result, the Company ceased to consolidate Cannvas, realizing a gain of $543,675, and commenced equity accounting. The Company determined the fair value of the initial equity investment to be $nil, and as a result has not recognized any further equity interest in the losses of Cannvas to December 31, 2017.

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

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

(Expressed in Canadian Dollars)

10. INVESTMENTS (continued)

Investment In Natures Hemp

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

At December 31, 2017, the Company recorded the following:

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

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

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

11. INVESTMENT IN PROPAGATION SERVICES CANADA INC.

During the year ended December 31, 2018, the Company acquired a 40% interest in a joint venture called Propagation Services Canada Inc. ("PSC"), which has ownership of the Houwelings Delta Propagation Facility ("Facility"), consisting of 2,200,000 sq. feet of illuminated greenhouse space and 1,700,000 sq. feet of "ebb and flood" irrigation space.

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 million 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 PSC pursuant to the terms of the agreement. As at December 31, 2018, DOCC acquired 44,582,040 of the common shares of the Company for proceeds of $20,000,000.

As of December 31, 2018 the Company has invested $11,506,840 and recorded a loss on its equity investment of $31,967 for the year.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Accounts payable	$ 141,039	$ 102,416
Amount due to related parties	69,275	120,000
Accrued liabilities	114,318	649,341
	$ 324,632	**$ 871,757**

13. LOANS PAYABLE

On October 30, 2017, the Company entered into a loan agreement evidenced by a promissory note with MYM Nutraceuticals Inc. for US$100,000 ($129,950). The loan bears interest at 10% per annum commencing December 1, 2017, is unsecured and due on demand. During the year-ended December 31, 2018, as part of the settlement with Solaris, this loan was forgiven and the Company recorded a gain of $129,950 (Note 10).

At December 31, 2017, AAA-H owed a total of $509,621 in loans payable. These loans are unsecured, due on demand, and non-interest bearing. Included in this amount was $52,500 owing to a director of AAA-H. These loans were all settled in the year ended December 31, 2018.

14. SHARE CAPITAL

a) Common shares

Authorized:
Unlimited number of common shares without par value.

Issued:

On March 10, 2017, the Company issued 38,282,500 units at a price of $0.05 per unit, for gross proceeds of $1,914,125. Each unit consists of one common share and one transferrable common share purchase warrant. Each warrant is exercisable to purchase one additional common share of the Company until March 19, 2019 at $0.08 per common share. Finders' fees were paid in the amount of $79,643 cash along with the issuance of 1,496,850 finders' warrants. These warrants have a fair value, calculated using the Black-Scholes Option Pricing Model, of $71,862, assuming an expected life of one year, a risk-free interest rate of 0.84%, an expected dividend rate of 0.00%, and an expected annual volatility of 209%.

During the year ended December 31, 2017, the Company issued 61,335,100 shares on the exercise of warrants for proceeds of $3,240,170, and 7,412,500 shares on the exercise of stock options for proceeds of $378,425.

During the year ended December 31, 2017, the Company issued 2,500,015 common shares valued at $200,001 for the acquisition of 9.1% of AAA-H (Note 8).

During the year ended December 31, 2017, the Company issued 6,000,000 common shares valued at $600,000 on the acquisition of Natures Hemp (Note 10).

On October 18, 2018, the Company closed a $12.5 million first tranche of $40 million Equity Participation and Earn-In Agreement with Delta Organic Cannabis Corp. and issued 27,863,775 common shares of the Company at a price of $0.448 per share.

On December 7, 2018, the Company closed a $7.5 million second tranche of the $40 million Equity Participation and Earn-In Agreement with Delta Organic Cannabis Corp. 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.

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

a) Common shares

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

During the year ended December 31, 2018, 25,405,150 warrants were exercised for gross proceeds 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, 2018, the Company has $61,000 in subscription receivable, compared to $149,200 subscription received in December 31, 2017.

b) Warrants outstanding

	Number of warrants		Weighted average exercise price
Balance at December 31, 2016	59,637,000		0.044
Warrants exercised	(61,335,100)		0.050
Warrants issued	42,154,350		0.080
At December 31, 2017	40,456,250	$	0.072
Warrants exercised	(25,405,150)		0.066
Warrants expired	(443,400)		0.12
At December 31, 2018	14,607,000	$	0.080

Expiry Date	Remaining life (years)	Number of warrants		Exercise price
March 10, 2019(1)	0.19	14,607,000		0.080
Balance at December 31, 2018		14,607,000	$	0.080

(1) 12,397,700 warrants were exercised subsequent to year end, the rest expired without exercise.

The weighted average remaining life of the warrants outstanding is 0.19 years (December 31, 2017– 1.01 years)

c) Stock options outstanding

On August 14, 2015, the Company's 2015 Stock Option Plan was approved. Under this 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
March 12, 2014	March 11, 2019	437,500	$	0.128
January 24, 2017	January 24, 2019	2,750,000		0..053
September 6, 2017	September 6, 2019	7,000,000		0.093
March 29, 2018	March 29, 2020	16,125,000		0.168
September 10, 2018	September 10, 2020	1,000,000		0.128
October 31, 2018	October 31, 2020	7,000,000		0.142
Balance at December 31, 2018		34,312,500	$	0.138

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

c) Stock options outstanding

	Number of options	Weighted average exercise price
Balance at December 31, 2016	11,168,750	0.070
Options cancelled and expired	(3,043,750)	0.074
Options exercised	(7,412,500)	0.050
Options granted	14,375,000	0.080
At December 31, 2017	15,087,500	0.080
Options exercised	(5,400,000)	0.069
Options granted	24,625,000	0.159
At December 31, 2018	34,312,500	0.138

The weighted average remaining life of the options outstanding is 1.16 years (December 31, 2017 – 1.40 years)

On January 24, 2017, the Company granted 4,875,000 stock options to certain consultants of the Company to acquire 4,875,000 shares of the Company at an exercise price of $0.053 per share for a period of two years that expire on January 24, 2019. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $215,302 assuming an expected life of 1.5 years, a risk-free interest rate of 0.78%, an expected dividend rate of 0.00%, and an expected annual volatility of 208%.

On September 6, 2017, the Company granted 9,500,000 stock options to certain consultants of the Company to acquire 9,500,000 shares of the Company at an exercise price of $0.0935 per share for a period of two years that expire on September 6, 2019. These options have a fair value, calculated using the Black-Scholes Option Pricing Model of $664,791 assuming an expected life of 1.5 years, a risk-free interest rate of 1.44%, an expected dividend rate of 0.00%, and an expected annual volatility of 188%.

All stock options vested on the date of grant. Included in stock-based compensation expense for the year ended December 31, 2017 is $54,066 relating to stock options granted by Cannvas prior to transition to equity method of accounting.

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

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

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

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

(Expressed in Canadian Dollars)

14. SHARE CAPITAL (continued)

d) Share-Based Payments Reserve

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

e) Warrants Reserve

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

15. 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 years ended December 31, 2018 and 2017:

Year ended December 31, 2018	Consulting and Management Fees	Share-based compensation
Christopher Hornung	$ -	$ 64,596
Cherry Consulting Ltd.	35,100	-
Elben Capital Inc./ Derek Ivany/Equity Analytics Inc.	804,500	665,618
Clairewood Partners / David Parry	230,250	353,844
Jerry Habuda	-	64,596
Jason Springett	-	29,487
Joseph Perino	-	64,596
	$ 1,069,850	$ 1,242,737

Year ended December 31, 2017	Consulting and Management Fees	Share-based compensation
Christopher Hornung	$ 7,500	$ -
Cherry Consulting Ltd.	34,704	27,741
Elben Capital Inc.	134,190	36,862
FourOneSix Inc.	80,000	9,881
Clairewood Partners / David Parry	31,000	452,988
Jerry Habuda	7,500	-
Shawn Moniz	-	9,881
Joseph Perino	7,500	-
	$ 302,394	$ 537,353

Amounts due to and due from related parties are unsecured, non-interest bearing and due on demand. At December 31, 2018, $31,841 (2017 - $87,400) is owing to related parties for unpaid fees, of which $31,841 (2017 - $34,900) included in accounts payable and accrued liabilities and $Nil (2017 - $52,500) is included in loans payable. Refer also to Note 13.

(Expressed in Canadian Dollars)

16. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities along with other cash flow information during the years ended December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Fair value of agent warrants issued for share costs	$ -	$ 71,862
Shares issued for acquisitions and investments	2,187,500	800,001
Shares issued for debt	351,441	-
Shares issued for services	1,460,000	-
Shares received on sale of mineral property	-	250,000

17. SEGMENTED INFORMATION

During the year ended December 31, 2017, the Company ceased any operations in the acquisition, exploration, and development of exploration and evaluation assets and the sale of e–cigarettes, and now focuses solely in the cannabis sector.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Classification of financial instruments

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following is an analysis of the Company’s financial assets measured at fair value as at December 31, 2018 and 2017:

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

	As at December 31, 2017		
	Level 1	**Level 2**	**Level 3**
Marketable securities	$ 312,500	-	-

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

b) Financial risk management

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

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

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

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

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at December 31, 2018 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 exposed to interest rate price risk.

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

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

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

(Expressed in Canadian Dollars)

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(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.

19. INCOME TAXES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	December 31, 2018	December 31, 2017
Net income (loss)	$ (5,820,218)	$ (2,119,600)
Statutory tax rate	27%	26%
Expected income tax recovery	(1,571,459)	(551,096)
Items not recognized for tax purposes	937,169	22,578
Change in statutory rates	(90,515)	
Temporary differences	-	20,707
Other items including effects of consolidation	(157,915)	241,492
Change in valuation allowance	882,720	266,319
Deferred income tax recovery	$ -	$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2018	December 31, 2016
Exploration and evaluation assets	$ 793,924	$ 764,519
Non-capital losses	3,391,130	2,728,188
Net capital losses available	401,442	386,574
Share issuance costs	17,482	53,555
Property and equipment	(59,885)	(74,388)
Investments	52,928	(144,147)
	4,597,021	3,714,301
Valuation allowance	(4,597,021)	(3,714,301)
Net deferred tax asset	$ -	$ -

The Company has non-capital losses of approximately $12,950,000 that may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through 2038. Exploration and evaluation assets, property and equipment and net capital losses have no expiry date. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

20. EVENTS AFTER REPORTING PERIOD

Subsequent to year end, the Company:

a) Issued 17,125,000 shares on exercise of options for a gross proceed of $2,251,250.
b) Issued 13,147,700 shares on exercise of warrants for a gross proceed of $1,051,816.
c) On March 15, 2019, the Company advanced $230,000 to Best Cannabis Products Inc. The advances has no specified terms of repayment.
d) 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 expiring March 15, 2020.
e) On March 21, 2019, Relay Medical Corp. ("Relay") and the Company announced the formation of the private company Glow Life Technologies Ltd. ("Glow") to pursue medical related tech opportunities in the global cannabis sector. Glow is owned 50% by Relay, 30% by the Company, who has committed to an initial investment of $200,000, and remaining 20% by private investors.
f) On March 25, 2019, the Company closed a $20 million third and fourth tranches of the $40 million Equity Participation and Earn-In Agreement with DOCC and issued the third tranche of 44,582,040 common shares of the Company at a price of $0.448 per Share.