



## **Organto Foods Inc.**

1090 Hamilton Street

Vancouver, B.C.

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Canada

### **Management's Discussion and Analysis (Unaudited)**

**For the nine months Ended  
September 30, 2018**

**(Stated in Canadian Dollars)**

**Dated November 27, 2018**

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## BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") provides an overview of the business and operations of Organto Foods Inc. for the nine months ended September 30, 2018. This report should be read in conjunction with the Company's September 30, 2018 unaudited condensed interim consolidated financial statements and its December 31, 2017 audited annual consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Except where the context otherwise requires, all references in this MD&A to the "Company", "we", "us", "our" and "Organto" or similar words and phrases relate to Organto Foods Inc. and its subsidiaries, taken together.

All currency amounts are expressed in Canadian dollars unless noted otherwise. In addition, "this quarter" or "current quarter" refers to the three-month period ended September 30, 2018.

This MD&A is dated November 27, 2018.

## FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking information and forward-looking statements, as defined in applicable securities laws (collectively referred to as "forward-looking statements"). Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects" or "does not expect," "is expected," "planned," "budget," "scheduled," "estimates," "continues," "forecasts," "projects," "predicts," "intends," "anticipates" or "does not anticipate," or "believes," or variations of such words and phrases, or statements that certain actions, events or results "may," "could," "would," "should," "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any of our future results, performance or achievements expressed or implied by the forward-looking statements; consequently, undue reliance should not be placed on forward-looking statements.

Forward-looking statements are based on a number of assumptions that may prove to be incorrect, including, but not limited to, assumptions about our ability to carry out our plans and objectives; our ability to open up and sell through retail chains and other channels in Europe and North America; our ability to procure required volumes of organic produce from either our own operations and/or strategic third party suppliers; our ability to meet import and export requirements; general business and economic conditions; the availability of equity and other financing on reasonable terms; our ability to successfully build out our medicinal cannabis platform; our ability to attract and retain skilled labour and staff; our ability to operate and/or partner with suppliers in The Netherlands, Europe, North America, Latin America, Africa and elsewhere; the impact of changes in foreign exchange rates on costs and results; transportation and logistics costs; market competition; and ongoing relations with our employees and with our business partners.

We caution you that the foregoing list of important factors and assumptions is not exhaustive. Whether actual results and developments will agree with our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- we have a limited operating history and may incur further losses until our operating platform achieves scale;
- there is risk in our ability to continue as a going concern due to losses incurred as we build our operating platform, risk in our negative working capital position and our accumulated deficit, all of which could impact our ability to continue operations;
- we may not be able to secure financing required to meet future capital needs to continue operations;
- additional financing may dilute common shareholders or place restrictions on our operations;
- we operate in a competitive global industry and the actions of competitors could impact revenues and profitability;
- we must attract and retain key personnel and professionals to achieve our business objectives;
- our customers are generally not obligated to continue to purchase products from us;

- if we do not manage our supply chain effectively, our operating results may be adversely affected;
- our international operations expose us to risks inherent with the countries where we are doing business;
- our business is subject to numerous environmental and food safety regulations and policies;
- our planned entry into the medicinal cannabis business exposes us to risks associated with laws and regulations governing medicinal cannabis, which are still developing in many parts of the world, and could have an impact on our plans to expand this part of our business;
- our acquisition of Medicannabis S.A.S. is subject to final TSX-V and shareholder approval which cannot be assured;
- our planned medicinal cannabis operations in Colombia are dependent upon final receipt of licenses to cultivate, process and sell and build-out of growing and processing operations;
- our stock price may be volatile, which may impact returns to our shareholders;
- our common shares are thinly traded and our shareholders may be unable to sell at or near ask prices, or at all;
- we do not anticipate paying any cash dividends to our common shareholders and as a result, shareholders may only realize a return when their shares are sold; and
- our business is subject to changing regulations related to corporate governance and public disclosure that may increase both our costs and risk of non-compliance.

Consequently, all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements and the detailed risks and uncertainties that are included in this report.

## STRATEGY

Organto is a vertically integrated provider of value-added branded organic produce focused on serving a growing socially responsible and health conscious consumer around the globe. Our mission is “to be a leading vertically integrated provider of organic value-added vegetables, fruits and other products, serving a growing socially responsible and health conscious consumer around the globe”.

As our strategy has evolved, we have recently expanded our organic foods go-to-market channels beyond organic vegetables to include a variety of branded and private label organic soft fruit, exotic fruit and tropical fruit, and also a variety of organic produce to be sold on a bulk basis. This channel expansion is intended to increase our revenue streams and our presence in key markets, while at the same time significantly deepening our relationships with strategic third-party supply partners. In addition, our product offering is being expanded into medicinal cannabis in order to move to higher margin product offerings while leveraging our diverse sourcing, processing, logistics, import, export and organic certification expertise.

We believe that the demand for healthy and organic foods will continue to grow for many years and supply availability will be key to this growth being realized. According to the US Organic Trade Association (OTA) sales of organic products grew 10.9% in 2015 to over US\$43 billion and to US\$47 billion in 2016, much ahead of the growth in sales of conventional products, and now representing over 5% of total food sales. The OTA estimates that 82% of Americans buy organic food at least some of the time and fresh produce continues to be the primary gateway by which consumers enter the organic foods space. Furthermore, over half of all households in the US have purchased organic produce and the fresh produce segment is the fastest growing within the organic segment, now representing 15% of all the produce that Americans eat, and 36% of total US organic foods spend. And this is not just a US phenomenon. The organic market in Europe continues to grow. In 2015 the market increased by 13% and reached approximately Euro 30 billion and in 2016 it increased another 11.4%, reaching nearly Euro 33.5 billion in turnover. Globally European countries account for the highest share of organic food sales as a percentage of total food sales. According to an ABN AMRO report dated June 23, 2016, “by 2020 it is expected that global organic food consumption will reach US \$160 billion, to reach the expected growth there must be sufficient supply”.

We also believe that the global cannabis industry will grow worldwide as countries around the world move to legalize and decriminalize the use of cannabis for both medicinal and recreational use. Legal cannabis is gaining traction due to very high demand among consumers, scientific evidence supporting the medical and social benefits of cannabis and increasing legalization of recreational or medical cannabis in various countries. Additionally, significant public and private investment for research and

development of safer forms of ingestible cannabis such as tinctures, oils, vapes and other edibles are expected to positively reinforce market growth. The number of conditions treated using medical cannabis is also growing rapidly and as new patients are added to the market, the demand for medicinal cannabis is expected to increase multiple folds in the coming years. A number of countries are moving towards legalization of marijuana for recreational purposes, and this in turn is expected to create a shift from medicinal to recreational cannabis demand. Canada recently legalized cannabis consumption for both medicinal and recreational purposes, following Uruguay who have also done the same. And this trend is continuing around the world. In the USA 9 states have legalized cannabis for recreational purposes and over 30 states have legalized cannabis for medicinal purposes. With a population of over 327 million, the estimated market potential by 2025 is over US \$24 billion (CDN \$31 billion). And Europe, with a population of in excess of 735 million and 140 million existing cannabis users, brings market potential of over 55 billion Euro (CDN \$ 85 billion). And finally, the Canadian market, which is now legalized for both medicinal and recreational purposes, brings market potential of approximately CDN \$8 billion. Together these markets bring a combined population of approximately 1.1 billion and combined market potential by 2025 of approximately CDN \$124 billion.

It is our belief in these growing markets and consumer trends, combined with our efforts to build an efficient year-round organic supply platform for many of our products that underlies our strategic focus and our mission to be a leading vertically integrated organic brand serving a growing socially responsible and health conscious consumer around the globe.

We employ a business model that is integrated from the “field to the table”. Driven by consumer and retailer demand for healthy and organic food products, we continue to build out a platform to deliver value-added branded and private label products to meet these needs via an integrated model with extensive sourcing, logistics, processing and distribution capabilities, with the objective of providing year-round product supply for many of our products and complete traceability from the table back to the field. Our model is rooted in our commitment to sustainable business practices focused on environmental responsibility and our commitment to the communities where we operate, our people and our shareholders.

Our strategic blueprint is centered on three key strategic pillars: *Supply, Brand and Infrastructure*.

- *Supply* – development of year-round vertically integrated organic supply chain capabilities;
- *Brand* – building the Organto brand as a leading brand with retailers; and
- *Infrastructure* – responsibly building-out the organization to allow the business to scale as required.

We have developed a branded go-to-market strategy under the Organto “I am Organic” brand for our organic fruits and vegetables and are in the process of developing our marketing approach for cannabis products. We believe our ability to drive a differentiated branded products strategy is based on our assessment of market demand combined with our intention to develop year-round supply capabilities for many of our value-added products. In hand with our branded products focus, we also work with retail partners to provide value-added private label offerings, with the objective of maximizing efficiencies while creating category demand for our brand. Our organic foods products are initially being rolled out to specific European customers and will be followed by introduction in the North American market. Our cannabis products are expected to be initially marketed in Colombia and expand over time to other legalized markets.

## **HISTORY AND OPERATIONS**

In March 2014 Agricola Nuova Terra S.A. (“Agricola”), a privately-owned business, commenced operations to build out a global year-round supply platform focused on the production and distribution of value-added branded organic vegetables.

On November 30, 2015, Agricola completed a reverse takeover (the “RTO”) of Columbus Exploration Corporation (“Columbus Exploration”). Columbus Exploration was incorporated on May 18, 2007 under the laws of the Province of British Columbia, Canada. Upon completion of the RTO, Columbus Exploration changed its name to Organto Foods Inc., and Agricola became a wholly-owned subsidiary of Organto Foods Inc. On March 21, 2016, Agricola changed its name to Organto Guatemala, Sociedad Anonima (“Organto Guatemala”).

The name change to Organto Foods Inc. was completed to better reflect our focus on growing, processing, packaging, distribution and branding of organic foods along with our commitment to sustainable and socially conscious business practices. Currently we have operations in Guatemala and contract growing relationships with a number of third-party strategic supply partners in South America and Africa. We are working to further diversify our revenue streams and supply base via strategic third-party relationships as our platform is built out.

Our head office is located at 1090 Hamilton Street, Vancouver, British Columbia, Canada and we have a sales, logistics and administration office in Breda, the Netherlands. Regional satellite offices are located in Mexico, Guatemala, Argentina and the USA.

While we have operated our own growing operations in the past in both Guatemala and Argentina, our focus now is on working with strategic third-party growers and service providers in Mexico, Peru, Argentina, Thailand, Zimbabwe as well as other countries in order to grow our business and drive an asset light business model.

## OUTSTANDING SHARE DATA

Our common shares are listed for trading on the TSX Venture Exchange (“TSXV”) under the trading symbol “OGO” and are quoted on the OTC Markets under the symbol “OGOFF”.

We have authorized capital of an unlimited number of common shares without par value. We have the following capital structure as at the date of this MD&A and September 30, 2018:

	November 27, 2018	September 30, 2018
Common shares issued and outstanding	158,888,395	147,863,395
Share purchase options outstanding (\$0.065-\$0.20)	6,990,000	7,015,000
Warrants (\$0.15-\$0.25)	51,590,378	46,090,378

See “Liquidity and Capital Resources” for further information.

## RECENT DEVELOPMENTS

### Corporate

In November 2018 the Company completed a non-brokered private placement of 11,000,000 units at a price of \$0.10 per unit for total proceeds of \$1,100,000. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.20 for a period of 18 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.

In August 2018 the Company completed a non-brokered private placement of 20 million units at a price of \$0.08 per unit. Total proceeds of \$1,600,000 were received: \$657,683 in June 2018 and \$942,317 in July and August 2018. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.15 for a period of 12 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.

In addition to our efforts to transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model in our foods business, and establish our cannabis operations, we have also endeavoured to strengthen our balance sheet. We have entered into agreements which will result in the elimination of over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan and shares for debt settlements.

In July 2018 we reached an agreement with the holders of our convertible debentures to convert the debentures, plus accrued interest and related conversion fees, into common shares of Organto. Under the terms of the agreement, Organto issued a total of 13,330,273 common shares to the holders of the debentures, representing 11,000,000 common shares issued to convert the face value of the debentures at a conversion price of \$0.185 per common share, and 2,330,262 common shares to convert accrued interest and related conversion fees at a conversion price of \$0.10 per common share. The debentures had a face value of \$2,035,000 and were issued on June 8, 2017 for a term of three years with interest at 8 per cent per annum, payable in arrears

starting one year after the date of issuance. Holders originally had the option to convert the principal amount of their debentures into common shares of Organto at a conversion price of \$0.35 per share through June 20, 2020.

In June 2018 we issued 2,269,230 common shares to settle a US\$590,000 convertible loan. The loan provided for automatic conversion at a conversion price of \$0.33 per common share in the event the company completed an equity financing resulting in gross proceeds of at least \$5 million. The company completed such an equity financing in September 2017, for gross proceeds of \$5,163,531.

We have entered into debt settlement agreements with Columbus Gold Corp., a related party, and two of our directors to settle debts in the amount of \$352,000 arising from services provided to Organto during the period December, 2015, through May 2018. A total of 2,989,742 common shares will be issued upon acceptance by the TSX Venture Exchange.

We also entered into a debt settlement agreement with a former officer as full and final settlement for amounts payable of US\$78,691 whereby we will issue him a total of 1,066,666 common shares. We will seek the required shareholder approval to issue these shares at our shareholders meeting to be held in December 2018.

We entered into an amended agreement with Arturo Bickford, a former officer and director, to restructure liabilities totalling US\$298,248 owed to Mr. Bickford and his affiliated companies under the terms of a previous settlement agreement. Under the terms of the amended agreement, monthly amounts payable have been amended, the payment term extended and certain outstanding interest costs waived. We made a cash payment of US\$55,000 in August 2018 and will make monthly payments of US\$15,000 in September through December 2018, then monthly payments of US\$22,906 in January through August 2019.

We issued share purchase warrants as part of our private placement in 2017 and in August 2018 we adjusted the pricing of the following share purchase warrants:

- 12,699,634 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until June 20, 2019. The new exercise price will be \$0.17 per warrant share;
- 2,165,208 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until Aug. 3, 2019. The new exercise price will be \$0.17 per warrant share;
- 19,565,000 share purchase warrants originally exercisable at a price of \$0.25 per warrant share until Sept. 11, 2019. The new exercise price will be \$0.17 per warrant share.

Originally, if the closing price of the company's shares was \$0.35 or greater for a period of 10 consecutive trading days, then the warrant holders had 30 days to exercise their warrants. This acceleration clause has been changed to a closing price of \$0.21 or greater for 10 consecutive trading days, with the warrants then expiring after 30 days.

In June 2018 we announced the departure of Marcus Meurs from his position as President and Chief Operating Officer, effective June 18, 2018. Steve Bromley, Chair and Interim CEO also assumed the role of President effective immediately. There are no plans to fill the Chief Operating Officer role in the near term given the revised structure which has been implemented by the Company

In April 2018 we announced that Mr. Arnoud Maas, Chief Executive Officer had advised that he would not be renewing his Management Services Agreement and thus would be leaving Organto as both CEO and Director. Steve Bromley, Chair of the Board of Directors assumed the role of Interim CEO.

From February through April 2018, we completed bridge financings whereby certain significant insider shareholders sold part of their shareholdings in private transactions and invested a portion of the proceeds as bridge loans to Organto. We received proceeds of \$815,740 from these bridge loans with related parties. The bridge loans are unsecured and have a term of one year, with interest rates ranging from 0% to 8%, payable in equal monthly payments of \$5,000 per month.

### **Foods Division**

Building on our previously announced agreements with suppliers of organic fruits and vegetables based in Thailand and Mexico, we entered into additional supply agreements with Latin American growers and commenced commercial activities in Europe during the third quarter.

Sales of organic blueberries to European customers began in September and represent our first sales of an organic soft fruit. Initial supply is from Argentina but will expand to include supply from Mexico and Peru and is expected to increase as additional growers begin their deliveries in the coming months. In October we began sales to a European on-line retailer, representing Organto's first

commercial activities in Europe in the fast-growing on-line channel. Organic blueberries and organic asparagus are the first products available for sale, but there is the potential for us to add new products as they become available.

Sales of organic asparagus started up again in September with sales to customers in the Netherlands. Initial supply is from Peru and volumes are expected to increase as additional growers in Argentina and Mexico begin their deliveries in the coming months.

Sales of organic avocados began in October to customers in Germany and the Netherlands. Initial shipments were from Mexico and future shipments will include additional supply from Peru. The initial shipments were almost fully sold in advance of shipping, indicative of the strong demand for organic avocado.

In September 2018 we closed our owned and operated receiving and packaging facility in Amsterdam after entering into an agreement with an established third party who provides a wide range of logistic services for fruits and vegetables, including quality management, receiving, sorting, repacking and warehousing. The closure of our facility in Amsterdam is part of our plan to move from primarily a fixed cost to a variable cost model.

In April 2018 we appointed Mr. Rients van der Wal to the position of Chief Executive Officer, Organto Europe BV. Mr. van der Wal brings extensive fresh fruits and vegetables experience to Organto, and has strong industry contacts at both customer and supply chain levels. Mr. van der Wal is based in the Netherlands and will lead Organto's vertically integrated value-added branded fresh vegetables business which operates from Breda.

In hand with Mr. van der Wal's appointment, we also announced our intention to expand our branded value-added organic vegetables product offering and supply capabilities via the addition of expanded supply relationships focused on organic soft, tropical and exotic fresh fruits, deepening supply relationships with strategic growers in key supply markets, expanding market presence and developing opportunities for new value-added Organto "I am Organic" branded product offerings. Since April, we have signed agreements with two producers in Mexico and expanded our product offerings with organic blueberries, organic blackberries, organic avocado, organic passion fruit and organic ginger. These additional products are expected to expand our market presence and revenue streams.

In April 2018 we announced that Mr. Arnoud Maas, Chief Executive Officer had advised that he would not be renewing his Management Services Agreement and thus would be leaving Organto as both CEO and Director. Steve Bromley, Chair of the Board of Directors assumed the role of Interim CEO.

### Cannabis Division

In November 2018 we completed, subject to shareholder approval, the acquisition of 100 per cent of the outstanding shares of Medicannabis SAS, a privately held Colombian medicinal cannabis company that is a late-stage applicant for licences to enable it to cultivate and process cannabis in Colombia. We will, subject to the final acceptance of the TSX Venture Exchange, issue up to 8,000,000 shares (the "Shares") to the original shareholders of Medicannabis upon receipt of a cultivation license, which is one of a number of licenses that Medicannabis has applied for. In this regard, 7,000,000 Consideration Shares shall be issued as soon as practicable following the securing of the above referenced cultivation license and the receipt of final acceptance of the TSX-V to the issuances of the Shares; and a further 1,000,000 Shares shall be issued together with the 7,000,000 Shares described above in circumstances where the cultivation license is received on or before December 21, 2018. The Shares will be subject to a four month hold period under applicable securities regulations and also be subject to contractual release limitations over a three-year period. The Company intends to pay a finder's fee in connection with the acquisition of Medicannabis via the issuance of common shares in accordance with the policies of the TSX Venture Exchange.

We plan to operate our cannabis division separate from our food division but believe this is a good opportunity for us to increase our value. Legalization of cannabis is a global trend presenting significant opportunities, and we believe that Latin America presents a unique opportunity to establish low-cost natural growing operations. We believe that the addition of medicinal cannabis to our portfolio of products is a logical and complimentary extension to our existing business, leveraging our diverse sourcing, processing, import, export, retail and organic certification expertise.

Mr. Todd Dalotto has been appointed President of Organto's Global Cannabis Division. Mr. Dalotto is a horticultural scientist, public policy consultant, and court-qualified expert witness specializing in cannabis. His experience includes horticultural research, teaching, and consulting businesses on the horticultural science and public policy of cannabis. His cannabis activities during the past nineteen years include breeding of in-bred lines, morphology, sustainable practices, mutualisms, and hoop-house cannabis production. He created the curriculum for the Cannabis Horticultural Science Course, which is a certificate course on core horticultural science topics such as Soil Science, Seed Biology, Plant Pathology, Breeding & Genetics, and more.

Mr. Dalotto has a horticultural research degree with an emphasis on sustainable agriculture and plant breeding from Oregon State University. He is the former Chair of the Oregon Health Authority's Advisory Committee on Medical Marijuana (ACMM), and of the ACMM's Horticulture, Research & Safety Committee. He currently serves on Americans for Safe Access' Patient-Focused Certification Review Board, on the Cannabis Certification Council's Technical Advisory Committee, and on various legislative advisory committees for the State of Oregon. Mr. Dalotto was instrumental in the drafting of the regulations for Oregon's Medical Marijuana Dispensary Program, and he founded one of Oregon's first cannabis medical clinic.

As part of the Medicannabis transaction, Organto has acquired 18 unique and proprietary cannabis varieties and breeding lines developed by Todd Dalotto over the past 19 years for Pacific Northwest environments. These varieties and breeding lines are being cross-bred with Colombian varieties that have been developed for tropical mountain climates by Medicannabis and other breeders, in order to develop varieties that perform well in equatorial regions around the world and exhibit qualities of aroma, flavor, and medicinal efficacy that cannabis connoisseurs expect. These proprietary breeds and strains, uniquely adapted for the region, will allow for a more successful and trouble-free crop.

This cross-breeding of northern-latitude and equatorial varieties represents the beginning of Organto's diverse and exclusive IP seed library, which includes high-THC, high-CBD, and auto-flowering varieties, as well as those that exhibit important minor cannabinoids, such as CBG and THCV. Organto's advanced breeding program will allow unique and proprietary varieties to be used in production, while simultaneously positioning Organto as a global supplier of high-quality cannabis cultivars adapted for equatorial regions.

The cultivars we develop from our diverse genetic library will exhibit both the horticultural qualities that make for a successful crop in equatorial regions as well as the high potency, flavor, aroma and medicinal properties that consumers have come to expect from North American and European producers. As cannabis production expands in the world's equatorial regions in the coming years, Organto will be poised to be an important supplier of high-quality, equatorially-adapted cannabis seeds around the world.

While the standard models for cannabis production facilities in the United States and Canada are characterized as higher cost indoor growing facilities and automated greenhouses, Organto is set to demonstrate how its original ecological and sustainable hoop-house cultivation design produces high-quality crops with lower production costs & higher profits than the standard model facility. In contrast with expensive standard-model production facilities common to competitors in North America, Organto's innovative model utilizes an inexpensive and simple hoop-house design, which maximizes light and heat from the sun, instead of from electrical lights & heaters, and cools by passive ventilation and efficient fans, instead of with chillers and air conditioners.

We believe our fully-equipped hoop-houses can be constructed at under 33% of the cost of the conventional cannabis production facilities constructed in Canada and the United States. Also, by utilizing free and abundant natural resources, such as planting in native soils instead of purchasing new shipments of potting media for each crop, and utilizing captured rainwater instead of exclusively municipal sources, Organto expects to realize significant savings in operating expenses.

This division's greatest operating expense will be labor, which in Colombia tends to be approximately 15% of the labour cost in Canada and the United States, hence eliminating the need for expensive automation systems and equipment.

Organto has extensive European market expertise, and with the global trend to legalize cannabis rapidly modifying the global landscape, it is expected that over time the European landscape will also evolve and open-up a potential US\$65 billion cannabis market of some 740 million people. When that happens Organto should be very well positioned to leverage their marketplace knowledge to take advantage of the enormous market opportunity. In the interim, Organto's Cannabis Division will focus on offering its future cannabis products locally in the Colombian medicinal market, and globally in markets where cannabis related imports and sales are fully legalized.

## **FINANCIAL RESULTS**

For the purposes of the information presented, the "Company" is defined as the consolidated entity.

### **Critical Accounting Estimates**

The preparation of financial statements in accordance with IFRS is the responsibility of management and requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the

reporting period. Our management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is risk of material adjustments to assets and liabilities in future accounting periods include estimates of useful lives of depreciated and amortized assets, the valuation of inventory which includes estimates with regards to the allocation of overhead and determining the net realizable value, assumptions used in determination of the fair value of share-based payments, the recoverability and measurement of deferred tax assets, and the allocation of the purchase price associated with the acquisition of a business.

The preparation of financial statements in accordance with IFRS requires us to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in preparing our financial statements include the assumption that we will continue as a going concern, classification of expenditures and the classification of financial instruments.

### Changes in Accounting Policies and Standards

A number of new standards, and amendments to standards and interpretations, have been applied in preparing these condensed interim consolidated financial statements while other standards will come into effect in the future. Those that may be applicable to us are as follows:

(a) IFRS 9 – *Financial Instruments* (“IFRS 9”)

This new standard is a partial replacement of IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 became effective January 1, 2018 and did not have a significant impact on our financial statements.

(b) IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’ and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 became effective January 1, 2018 and did not have a significant impact on our financial statements.

(c) IFRS 16 – *Leases* (“IFRS 16”)

IFRS 16 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, with early adoption permitted for entities that have adopted IFRS 15. We have not yet assessed the future impact of this new standard on our financial statements.

(d) Other

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

## Financial Performance

	Three months ended			Nine months ended		
	September 30, 2018 (\$)	September 30, 2017 (\$)	% Change	September 30, 2018 (\$)	September 30, 2016 (\$)	% Change
Revenues	444,259	135,623	228%	468,302	456,075	3%
Gross profit (loss)	11,421	(441,277)	(103%)	(258,893)	(859,303)	(70%)
Net loss for the period	(864,121)	(1,468,605)	(41%)	(3,367,591)	(3,708,148)	(9%)
Cash used in operating activities	(989,710)	(1,464,813)	(32%)	(2,418,205)	(4,114,804)	(41%)
Loss per share, basic and diluted	(0.01)	(0.02)	-	(0.03)	(0.04)	-

## Review of Financial Results – Current Quarter

Organto's reorganization of its business model and ambitious turnaround strategy under the direction of its new management team is progressing well with revenues resuming in the third quarter, and strong quarterly revenues expected to be generated in the fourth quarter of this year. Our transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model continued in the third quarter and results are starting to be realized. We have been diversifying our grower base and growing regions to benefit from low-cost labor, existing infrastructure, logistics economics and routes to designated markets, as well as expand grower relationships and increase number and variety of products handled. We are also reducing overheads throughout the organization, shifting from a fixed cost base structure to a combination of fixed and variable resources, intended to reduce the overhead burden as our business grows. Looking forward we believe that revenue, margins and product diversification will continue to increase as we take advantage of improved supply dynamics and expand into new product categories.

We incurred a net loss of \$864,121 during the current quarter, down from \$1,468,605 during the same period in the prior year and \$1,060,868 for the second quarter of 2018.

Revenues for the three months ended September 30, 2018 were \$444,259 as compared to \$135,623 during the same period in the prior year, an increase of 228% and we earned a gross profit of \$11,421 in the third quarter of 2018 as compared to a gross loss of \$441,277 during the same period in the prior year. The increase in revenues was an approximate 45-per-cent increase over revenues for the previous 12 months and the company's highest quarterly revenues in over two years. Our transition to multiple revenue streams and expanded product supply enabled us to post our first gross profit since the second quarter of 2017. This improvement was driven by significantly improved supply chain efficiencies, reduced product losses and reduced costs associated with our Guatemalan operations, offset somewhat in the quarter by costs associated with initial product launch costs as expanded offerings were introduced to the market.

Selling, general and administration expenses of \$249,804 this quarter were lower than the \$531,700 from the same quarter of the prior year and lower than the \$367,455 incurred in the second quarter of 2018. The reduction in costs during the quarter was attributable to cost reductions across the organization as overheads and related costs were reduced to align with our restructured business model. Also, beginning in the second quarter of 2018, the costs of our operations in Guatemala have been allocated to general and administration expenses while production has been suspended pending a review of our business objectives in that country. Two categories of costs that did see an increase in the second quarter were legal and regulatory fees incurred as the Company negotiated agreements to eliminate over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan, the shares for debt settlements, the bridge loan financing and the private placement.

Management fees in the current quarter decreased to \$127,474 as compared to \$302,340 in the same quarter of the prior year. The decrease was a result of the Company's efforts to reduce its staffing to a level better supported by the Company's operations as well as due to certain officers and advisors agreeing to waive their fees for services until such time as the Company's operations can better support the payment of such fees.

Salaries and benefits during the third quarter decreased to \$215,363 as compared to \$303,961 in the same quarter of the prior year. In the third quarter of 2017, the Company began the build-out of the Amsterdam office, first including sales and marketing personnel and then finance and administration personnel. Staffing levels in the Amsterdam office have been scaled back beginning late in the first quarter of 2018 and associated staffing costs are lower in the third quarter of 2018 versus the third quarter of 2017.

We recognized \$2,035 for stock-based compensation in the second quarter of 2018. No stock-based compensation was recognized in the same quarter of 2017. Stock based compensation is calculated using the Black-Scholes option pricing model which requires the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore does not necessarily provide a reliable single measure of the fair value of the Company's stock options granted and/or vested during the period. Stock based compensation in the third quarter of 2018 was based on a fair value of \$0.07 per share for the 600,000 options granted in June 2018.

We have, or had during the quarter, a convertible loan payable, convertible debentures, and certain loans and accounts payable, which incur interest at various rates. Total interest expense and accretion recognized during the current quarter was \$458,402 as compared to \$57,950 for the same quarter of the prior year and relates to the loans payable and the convertible debentures. The convertible debentures had a maturity date of June 2020 but were converted into common shares in July 2018. The early conversion resulted in accelerated accretion expense of \$385,277 for the third quarter of 2018. The early conversion also resulted in fees totalling \$51,939. We were able to retire the convertible debentures and pay the associated fees and interest by issuing shares, saving us from having to pay the interest in cash. See "Liquidity and Capital Resources" for further information.

We realized other income of \$142,700 as compared to \$44,296 in the third quarter of the prior year. The other income consists primarily of gains on various debt settlement agreements.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. We realized a foreign exchange gain of \$34,836 this quarter as compared to a gain of \$54,380 during the same quarter last year.

### **Review of Financial Results – Current Period**

We incurred a net loss of \$3,367,591 during the first nine months of 2018, compared to \$3,708,148 during the same period in the prior year.

Revenues for the nine months ended September 30, 2018 were \$468,302 and we incurred a gross loss of \$258,893 as compared to revenues of \$456,075 and a gross loss of \$859,303 during the same period last year. Revenues saw a large increase in the third quarter of 2018 as we continued our transition from an asset heavy and single revenue stream business model to an asset light and multi revenue stream business model. Gross loss for the nine months was \$441,277 versus a gross loss of \$859,303 for the nine months in the prior year.

Selling, general and administration expenses were \$1,047,730 for the first nine months of 2018 and were lower than the \$1,457,000 from the same period last year. The reduction in costs is attributable to cost reductions across the organization which commenced late in the first quarter of 2018 as overheads and related costs were reduced to align with our restructured business model. Also, beginning in the second quarter of 2018, the costs of our operations in Guatemala have been allocated to general and administration expenses while production has been suspended pending a review of our business objectives in that country. Legal and regulatory fees are a large portion of these costs in 2018. These fees were incurred as the Company negotiated agreements to eliminate over \$3 million of debt and payables through the early conversion of convertible debentures, the settlement of a convertible loan, the shares for debt settlements, the bridge loan financing and the private placements.

Management fees in the first nine months of 2018 decreased to \$456,684 as compared to \$863,746 in the same period of the prior year. The decrease was a result of the Company's efforts to reduce its staffing to a level appropriate to the Company's operations as well as due to certain officers and advisors agreeing to waive their fees for services until such time as the Company's operations can better support the payment of such fees.

Salaries and benefits during the first nine months of 2018 increased to \$962,888 as compared to \$503,915 in the same period last year. In the third quarter of 2017, the Company began the build-out of the Amsterdam office, first including sales and marketing personnel and then finance and administration personnel. Staffing levels in the Amsterdam office have been scaled back beginning late in the first quarter of 2018. Costs in the second quarter of 2018 included approximately \$180,000 for severance and termination payments as staffing levels have been reduced.

We recognized \$17,448 for stock-based compensation in the first nine months of 2018. No stock-based compensation was recognized in the same period of 2017. Stock based compensation in 2018 was based on a fair value of \$0.07 per share for the

600,000 options granted in June 2018 of which 125,000 had vested, along with a fair value of \$0.09 for the options that were granted in 2017 but vested in the first and second quarters of 2018.

We have, or had during 2018, a convertible loan payable, convertible debentures, and certain loans and accounts payable, which incur interest at various rates. Total interest expense and accretion recognized during the first nine months of 2018 was \$830,867 as compared to \$217,298 for the same period of the prior year. The increase over 2017 is attributable to the interest on the convertible debentures which were only issued late in the second quarter of 2017, and additional accretion on both the convertible loan payable, which was settled with shares in June 2018, and the convertible debentures, which were settled with shares in July 2018. See "Liquidity and Capital Resources" for further information.

We realized other income of \$179,728 as compared to a loss of \$29 in the first nine months of the prior year. The other income in 2018 consists of gains on debt settlement agreements while the small loss in 2017 was the net effect of gains and losses from the settlement of certain commitments. See "Related Party Transactions" for further information.

Foreign exchange gains and losses arise from transactions incurred in currencies other than the functional currency of the Company and its subsidiaries. We realized a foreign exchange gain of \$9,242 in the first nine months of 2018 as compared to a gain of \$53,835 during the same period last year.

We recorded gains totalling \$17,949 from the revaluation of the derivative financial liability at the end of the first quarter of 2018 and then the elimination of this derivative financial liability in June 2018.

During the first nine months of 2018 we realized a basic and diluted loss per share of \$0.03 per share compared to a loss of \$0.04 per share for the same period in 2017.

### Selected Quarterly Information

	Q3 2018 (\$)	Q2 2018 (\$)	Q1 2018 (\$)	Q4 2017 (\$)	Q3 2017 (\$)	Q2 2017 (\$)	Q1 2017 (\$)	Q4 2016 (\$)
Revenues	444,259	10,648	13,395	136,459	135,623	284,878	35,574	25,969
Net loss for the period attributable to shareholders of the Company	(864,121)	(1,060,868)	(1,442,603)	(5,659,635)	(1,468,605)	(1,300,937)	(870,271)	(2,091,813)
Basic and diluted loss per share for the period	(0.01)	(0.01)	(0.01)	(0.05)	(0.02)	(0.01)	(0.01)	(0.03)

  

	Sep 30, 2018 (\$)	Jun 30, 2018 (\$)	Mar 31, 2018 (\$)	Dec 31, 2017 (\$)	Sep 30, 2017 (\$)	Jun 30, 2017 (\$)	Mar 31, 2017 (\$)	Dec 31, 2016 (\$)
Cash	33,249	189,454	28,567	172,025	2,257,086	1,142,413	201,663	26,230
Total assets	2,880,218	2,804,575	2,766,969	3,156,867	7,693,330	6,646,020	5,428,130	5,102,997
Total non-current financial liabilities	-	1,649,723	1,612,806	1,572,230	1,970,554	1,919,750	-	-

### Liquidity and Capital Resources

At September 30, 2018, we had cash of \$33,249 and a working capital deficiency of \$2,973,680 compared to \$172,025 and \$2,934,299, respectively, at December 31, 2017.

In August 2018 we completed a non-brokered private placement of 20 million units at a price of \$0.08 per unit. Total proceeds of \$1,600,000 were received: \$657,683 in June 2018 and \$942,317 in July and August 2018. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.15 for a period of 12 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive

trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.

In November 2018 we completed a non-brokered private placement of 11 million units at a price of \$0.10 per unit for total proceeds of \$1,100,000. Each unit consisted of one common share and one-half warrant, with each full warrant exercisable to purchase one additional common share at a price of \$0.20 for a period of 18 months after the closing date. The exercise date of the warrants issued is subject to acceleration in the event that the closing price of common shares on the TSX Venture Exchange is greater than or equal to \$0.25 per share for a period of 10 consecutive trading days and such acceleration event occurs any time after the expiration of a four-month hold period applicable to the securities issued.

Cash used in operating activities for the third quarter of 2018 was \$989,710 (\$1,464,813 – 2017) and \$2,418,204 for the nine months ended September 30, 2018 (\$4,114,804 – 2017). Cash used in operations consists of cash used to fund the loss for the period and the impact of non-cash items and changes in non-cash working capital.

At September 30, 2018, we had current liabilities of \$4,221,406 (December 2017 - \$4,148,815) and no non-current liabilities (December 2017 - \$1,572,230) as the non-current liabilities were converted into equity during the third quarter.

We are reliant upon equity and/or debt financings to fund operations until such time as revenues are sufficient to sustain operations.

### Financial instruments

The fair value of our financial instruments, financial statement classification and associated risks are presented in the following table.

<b>Financial instrument</b>	<b>Basis of measurement</b>	<b>Associated risks</b>	<b>Fair value at September 30, 2018 (\$)</b>
Cash	Fair value through profit or loss	Credit, currency and concentration	33,249
Receivables	Amortized cost	Credit, currency and concentration	510,300
Accounts payable	Amortized cost	Currency	(2,524,057)
Loan due to Omega S.A.	Amortized cost	Currency	(295,467)
Loans payable	Amortized cost	n/a	(815,740)
Due to Columbus Gold	Amortized cost	n/a	(300,000)
			<b>(3,391,715)</b>

The fair value of our financial instruments including cash, receivables, accounts payable, loan due to Omega, loans payable, convertible loan payable, and amounts due to Columbus Gold approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

IFRS 7, *Financial Instruments: Disclosure* 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).

Our financial instruments are exposed to certain financial risks. The risk exposures and the impact on our financial instruments at December 31, 2017 are summarized below. The Board of Directors reviews with management the principal risks affecting the Company and the systems that have been put in place to manage these risks.

(a) Credit risk

Credit risk is the risk that the Company will incur a loss due to a customer or third party failing to discharge their obligation due to the Company.

The credit risk exposure on cash is limited to their carrying amounts at the date of the statement of financial position. Cash is held as cash deposits with creditworthy banks in Canada, Europe, Guatemala and Argentina. The risk is assessed as low.

The credit risk exposure on receivables is limited to their carrying amounts at the date of the statement of financial position. Trade receivables are mainly from three customers in Europe. The risk is assessed as high due to the limited number of customers. Other receivables are primarily comprised of GST and VAT credits with a low risk assessment.

(b) Liquidity risk

Liquidity risk arises from the Company's general and capital financing needs. We manage liquidity risk by attempting to maintain sufficient cash balances. Liquidity requirements are managed based on expected cash flows to ensure that there is sufficient capital in order to meet short term obligations. As at September 30, 2018, we had a working capital deficiency of \$2,966,805 (December 31, 2017 – \$2,934,299). Liquidity risk is assessed as high.

To date, the Company has been able to address any shortfalls in meeting our short term financial demands by turning to equity and debt markets to raise the funding necessary continue operations. We will have to continue to raise funds on these markets until the Company is able to realize consistent profitable operating results.

(c) Market risks – interest rate

We do not have debt that is subject to interest rate risks, as the debts have fixed rates.

*Sensitivity Analysis*

A 1% change in interest rates does not have a material effect on our profit or loss and equity.

As our functional currency is the Canadian Dollar, where foreign currency transactions such as the US Dollar, European Euro, Argentine Peso and Guatemalan Quetzal are converted into Canadian Dollars, changes in exchange rates between these currencies may have an effect on our profit or loss and equity. A +/- 10% change in the exchange rate between those currencies and the Canadian Dollar can affect net income by approximately \$55,000.

*Capital Management*

When managing capital our objective is to ensure an optimal capital structure is maintained to reduce overall cost of capital and allowing flexibility to respond to changes in working capital requirements.

In the management of capital, we include the components of shareholders' equity as well as cash and receivables.

We manage the capital structure and make adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash and investments.

In order to facilitate the management of our capital requirements, we monitor working capital and cash flows regularly. There have been no changes to our capital management policies and procedures since the end of the most recent fiscal year.

**Related Party Transactions**

We had a services agreement with Columbus Gold, whereby Columbus Gold provided administration and management services for a fixed monthly fee. The agreement was effective until May 31, 2018. Currently, one of the Company's directors is a director of Columbus Gold. In the past, Columbus Gold had additional directors and officers in common with the Company.

As part of the June 2018 employment settlement agreement between the Company and Marcus Meurs, its former President and COO, the Company forgave the \$96,998 owed to it by Fresh Organics LLC, a company controlled by Mr. Meurs and Mr. Meurs forgave the \$79,336 owed to himself by the Company.

The following related party transactions were made in the normal course of operations:

	Three months ended		Nine months ended	
	September 30, 2018 (\$)	September 30, 2017 (\$)	September 30, 2018 (\$)	September 30, 2017 (\$)
Management fees paid or accrued to:				
Peter Gianulis, Executive Vice President	46,602	47,901	139,536	95,498
Brandal B.V., a company controlled by Rients van der Wal, CEO of the Company's European subsidiary	68,346	88,704	137,601	173,346
Fresh Organics LLC, a company controlled by Marcus Meurs, former President and COO	-	66,504	61,654	140,281
MCC Holding B.V. a company controlled by Arnoud Maas, former CEO	-	53,120	94,853	53,120
Director fees paid or accrued	-	18,000	-	36,000
Administration fees paid or accrued to:				
SHARE Marketing & Management Services B.V., a company controlled by Rients van der Wal	66,563	-	76,974	-
Columbus Gold	-	76,800	50,000	153,000
	<b>181,511</b>	<b>351,029</b>	<b>560,618</b>	<b>651,245</b>

The following summarizes balances due to (from) each related party:

	September 30, 2018 (\$)	December 31, 2017 (\$)
Management fees advanced to Fresh Organics LLC	-	96,998
Management fees payable to:		
Brandal B.V.	(51,094)	-
Peter Gianulis	(114,176)	(30,108)
Due to Columbus Gold:		
to be settled in shares of Organto	(300,000)	(250,000)
Directors fees included in accrued liabilities	(52,000)	(48,864)
Administration fees payable to SHARE & Management Services B.V.	(30,663)	-
Expense reimbursements payable to:		
Steve Bromley, Director, Interim Chief Executive Officer & President	-	(7,814)
Peter Gianulis	-	(45,488)
Loan due to Omega S.A. (note 9)	(295,467)	(372,148)
Loans payable to:		
Omega S.A.	(66,679)	-
Multatulli Sustainable Merchants, LLC, a company associated with Marcus Meurs	(70,187)	-
Stuyvesant et Compagnie, Inc., a company associated with Marcus Meurs	(287,268)	-
Naeturrland, Inc., a company associated with Marcus Meurs	(286,947)	-
Grupo Tierra Nueva, LLC, a company associated with Arturo Bickford, former COO	(104,659)	-
Interest payable to:		
Stuyvesant et Compagnie, Inc.	(7,088)	-
Naeturrland, Inc.	(7,095)	-
	<b>(1,673,323)</b>	<b>(657,563)</b>

## **Commitments**

At September 30, 2018, we have the following commitments:

	<b>Within 1 year (\$)</b>	<b>Between 1 and 5 years (\$)</b>	<b>After 5 years (\$)</b>	<b>Total (\$)</b>
Lease payments for land use in Guatemala	23,463	29,204	54,937	107,604
Management fees to Peter Gianulis	186,408	77,670	-	264,078
Management fees to Brandal B.V.	273,384	410,076	-	683,460
Loan payable to Omega S.A.	295,467	-	-	295,467
Loans payable	815,740	-	-	865,740
	<b>1,594,462</b>	<b>516,950</b>	<b>54,937</b>	<b>2,216,349</b>

## **OFF-BALANCE SHEET ARRANGEMENTS**

During the nine months ended September 30, 2018 and up to the date of this report, the Company had no off-balance sheet transactions.

## **PROPOSED TRANSACTIONS**

Other than the Medicannabis acquisition, there are no transactions being contemplated by management or the board that would affect the financial condition, results of operations and cash flows of any asset of the Company.

## **RISKS AND UNCERTAINTIES**

### **Risk factors**

Our business, operations and financial condition are subject to various risks and uncertainties. Prior to making an investment decision, investors should consider the risks and uncertainties set out below and those described elsewhere in this document, which are in addition to the usual risks associated with an investment in a business engaged in the global production and distribution of organic produce. We believe the risks set out below to be the most significant to potential investors, but do not represent all of the risks associated with an investment in securities of our Company. If any of the identified risks materialize or other additional risks and uncertainties of which we are currently unaware materialize, our assets, liabilities, financial condition, results of operations (including future results of operations), business and business prospects are likely to be materially and adversely affected. These risk factors should be read in conjunction with other information in this report and in other documents that we file from time to time.

### **Risks Related to Our Business**

*We have a limited operating history and may incur further losses until our operating platform achieves scale.*

Agricola began carrying on business in 2014 and since that time we have built out our operating platform and generated approximately \$5.1 million in revenues and operating losses of approximately \$19.0 million. We are subject to many of the risks common to early-stage enterprises, including costs associated with building out an operating platform prior to volumes coming to scale, undercapitalization, cash shortages, and limitations with respect to personnel, financial, and other resources. There is no assurance that we will be successful in establishing a customer base, that consumers will purchase our products, or that we will

begin generating revenues sufficient to cover our operating costs. Our ability to achieve a return on shareholders' investment and the likelihood of its success must be considered in light of the company's early stage of operations.

*There is risk in our ability to continue as a going concern due to losses incurred as we build out our operating platform, risk in our negative working capital position and our accumulated deficit, all of which could impact our ability to continue operations.*

Our independent auditors have added an explanatory paragraph to their audit opinion issued in connection with our financial statements for the years ended December 31, 2017, 2016 and 2015 with respect to our ability to continue as a going concern. As discussed in Note 1 to our financial statements for the current quarter, we have generated operating losses since inception, cash resources are currently insufficient to meet planned business objectives, and thus additional financing will be required to realize the carrying value of our assets and continue operations, which together raises doubt about our ability to continue as a going concern.

*We may not be able to secure financing required to meet future capital needs to continue operations.*

We will require additional capital to fulfill our contractual obligations and continue development of our product offerings and global operating platform, through either equity or debt financing. Due to business specific or general economic conditions, we may be unable to secure debt or equity financing on terms acceptable to the Company, or at all, at the time when we need such funding. Our inability to raise additional funds on a timely basis would make it difficult to achieve our business objectives and would have a negative impact on our business, financial condition and results of operations.

*Additional financing may dilute common shareholders or place restrictions on our operations.*

If we raise funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced, and the securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock or may be issued at a discount to the market price of our common stock which would result in dilution to our existing stockholders. If we raise additional funds by issuing debt, the Company may be subject to debt covenants, which could place limitations on our operations including our ability to declare and pay dividends.

*We operate in a competitive global food industry and the actions of competitors could impact revenues and profitability.*

The agricultural produce industry is intensely competitive in all of its phases. We compete with other companies, some of whom have greater financial resources, larger facilities, more capacity, higher staffing levels, greater economies of scale, pricing advantages, longer operating histories and more established market presences. We may have little or no control over some or all of these competitive factors. If we are unable to effectively respond to these competitive factors, or if the competition in our product markets results in price reductions or decreased demand for our products, our business, results of operations and financial condition may be materially impacted.

We are focusing our business on the production, processing, packing and distribution of value-added and branded organic produce grown in strategic geographies that will provide us with year-round supply capabilities. As a result of changing consumer preferences and awareness, we believe there is increased demand for organic produce over conventional produce which we believe will be positive for us. Even so, we expect to face competition from new entrants to the organic produce market wanting to participate in this growing category. Our ability to remain competitive will depend to a great extent on our ability to grow our customer base, build our brand, maintain competitive pricing levels, manage transportation and delivery logistics and effectively market our products to our customers. There can be no assurance that we will have sufficient resources to compete successfully with our current or future competitors in these areas, which could have a material adverse effect on our business plan and results of operations.

*We must attract and retain key personnel and professionals to achieve our business objectives.*

Our success will be largely dependent upon the performance of our management and key employees. We must compete with other companies both within and outside the food industry to recruit and retain competent employees and contract resources. If we cannot attract and maintain qualified resources to meet our business needs, this could have a material adverse effect on our business. In addition, the Company does not have key man insurance policies and therefore there is a risk that the death or departure of any existing member of management or any key employee could also have a material adverse effect on the Company.

*Our customers generally are not obligated to continue purchasing products from us.*

Many of our customers buy from us under purchase orders, and we generally do not have long-term agreements with or commitments from these customers for the purchase of our products. We cannot provide assurance that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales volumes or orders for products supplied by us may have a material adverse effect on our business, financial condition or results of operations.

*If we do not manage our supply chain effectively, our operating results may be adversely affected.*

Our supply chain is complex and subject to a number of risks. We directly operate growing and processing operations but also rely on a number of third party suppliers for the growing, processing, packaging and distribution of certain of our products. Our inability to effectively manage our supply chain could cause our operating costs to rise and our margins to fall. In addition, potential adverse weather conditions and natural disasters add another layer of risk to our supply chain. We must continuously monitor our inventory and product mix against forecasted demand or risk having inadequate supplies to meet customer demand as well as having too much inventory that could reach its expiration date. If we are unable to manage our supply chain efficiently and ensure that our products are available to meet customer demand, our operating costs could increase and our margins could fall.

*Our international operations expose us to additional risks inherent with the countries where we are doing business.*

We operate in various foreign jurisdictions around the world. These international operations expose us to risks inherent in doing business abroad including exposure to local economic conditions, foreign exchange rate fluctuations and currency controls, investment restrictions or requirements, export and import restrictions, compliance with anti-corruption and anti-bribery laws, compliance with export controls and economic sanctions laws, and unforeseen events such as natural disasters, terrorism or political and civil unrest. As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks, thus materially impacting our business, financial condition and results of operations.

*Our business is subject to numerous environmental and food safety regulations and policies.*

Our operations are subject to environmental and food safety regulations and policies in the areas where we operate. Changes in any government laws or regulations applicable to our operations could increase our compliance costs, negatively affect our ability to sell certain products or otherwise adversely affect our results of operations. While we believe we are in compliance with all laws and regulations applicable to our operations, we cannot assure you that we have been, or will at all times be, in compliance with all environmental and food safety requirements, or that we will not incur material costs or liabilities in connection with these requirements. Our failure to comply with any laws, regulations or policies applicable to our business could lead to penalties, loss of our ability to sell certain of our products, possible product recalls and others, any of which could have a material impact on our business, financial condition and results of operations.

*Our planned entry into the medicinal cannabis business exposes us to risks associated with laws and regulations governing medicinal cannabis, which are still developing in many parts of the world, and could have an impact on our plans to expand this part of our business.*

Our entry into the medicinal cannabis industry is governed by laws and regulations specific to various countries around the world. Many of these laws and regulations are still being developed, and dependent on the outcome of these, our ability to expand our business into new markets and geographies could be impacted.

*Our acquisition of Medicannabis S.A.S. is subject to final TSX-V and shareholder approval which cannot be assured.*

Our planned acquisition of Medicannabis S.A.S. in Colombia is subject to final TSX-V and shareholder approval. Final TSX-V approval is dependent upon approval of certain filings and the acquisition of a cultivation license in Colombia, and shareholder approval will be requested via consent resolutions. There is no assurance that these approvals will be obtained, and thus our ability to enter the medicinal cannabis sector cannot be assured.

*Our planned medicinal cannabis operations in Colombia are dependent upon final receipt of licenses to cultivate, process and sell, plus staffing and build-out of growing and processing operations.*

Our medicinal cannabis operations in Colombia are early-stage and dependent on successful receipt of various licenses from the Colombian Government, the recruitment of management and operational personnel to lead and manage the business, and build-out

of growing, processing and marketing operations to ready product for the market. There is no assurance that these activities will be completed in a timely manner, or at all, thus impacting our ability to successfully enter the medicinal cannabis industry.

### **Risks Related to Ownership of Our Securities**

*Our stock price may be volatile, which may impact returns to our shareholders.*

From time to time stock markets experience extreme price and volume fluctuations, which, when combined with general economic and political conditions, could adversely affect the market price for our securities. In addition, the trading price of our common stock may be volatile and could fluctuate widely in response to many factors, including the following, some of which are beyond our control:

- variations in our operating results;
- changes in expectations of our future financial performance, including financial estimates by securities analysts and investors;
- changes in operating and stock price performance of other companies in our industry;
- additions or departures of key personnel; and
- future sales of our common stock.

*Our common shares are thinly traded and our shareholders may be unable to sell at or near ask prices, or at all.*

We cannot predict the extent to which an active public market for trading our common stock will be sustained. Our shares have historically been thinly-traded meaning that the number of persons interested in purchasing our common shares at or near bid prices at a certain given time may be relatively small or non-existent.

This situation is attributable to a number of factors, including the fact that we are a smaller company in its development phase which is relatively unknown to stock analysts, stock brokers, institutional investors and others in the investment community who generate or influence sales volume. Even if we came to the attention of such persons, those persons may be reluctant to follow, purchase, or recommend the purchase of shares of an unproven company such as ours until such time as we become more seasoned and viable. As a consequence, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to a seasoned issuer which has a large and steady volume of trading activity that will generally support continuous trades without an adverse effect on share price. We cannot be assured that a broader or more active public trading market for our common stock will develop or be sustained, or that current trading levels will be sustained.

*We do not anticipate paying any cash dividends to our common shareholders and as a result shareholders may only realize a return when their shares are sold.*

We presently do not anticipate that we will pay dividends on any of our common stock in the foreseeable future. If payment of dividends does occur at some point in the future, it would be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any common stock dividends will be at the discretion of our Board of Directors. We presently intend to retain all earnings to implement our business plan; accordingly, we do not anticipate the declaration of any dividends for common stock in the foreseeable future.

*Our business is subject to changing regulations related to corporate governance and public disclosure that may increase both our costs and the risk of noncompliance.*

Because our common stock is publicly traded, we are subject to certain rules and regulations of federal, provincial and financial market exchange entities charged with the protection of investors and the oversight of companies whose securities are publicly traded. These entities have issued requirements and regulations and continue to develop additional regulations and requirements in response to public concerns. Our efforts to comply with these regulations have resulted in, and are likely to continue resulting in, increasing general and administrative expenses. Because new and modified laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices.

### **DISCLOSURE AND INTERNAL CONTROLS**

Disclosure controls and procedures have been established to provide reasonable assurance that material information relating to the Company is made known to management, particularly during the period in which annual filings are being prepared. Furthermore,

internal controls over financial reporting have been established to ensure that the Company's assets are safeguarded and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

During the year ending December 31, 2017, we worked to enhance our disclosure controls and procedures through the implementation of the *Internal Control – Integrated Framework (2013 Framework)* control framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and the *Control Objectives for Information and Related Technology 5.0* framework issued by the Information Systems Audit and Control Association for the management and governance of information technology.

The Company's system of internal controls was impacted by two main factors in 2017: the relocation of its head office from Vancouver to Amsterdam and an unusually large rate of turnover of key personnel. In addition to internal reviews, the Company engaged an internal controls specialist to provide an independent review of its internal control system. One such internal review discovered a weakness which was confirmed by the review carried out by the independent internal controls specialist.

As part of the head office relocation, the Amsterdam office was expected to adopt the system of internal controls used by the Vancouver office, subject to any adjustments required to comply with local laws and regulations. However, the Amsterdam office did not implement the Vancouver system and instead implemented their own. While other controls already in place ensured that the quality and accuracy of financial reporting was not at risk, one control adopted by the Amsterdam office was not consistent with those implemented in the Vancouver office.

As a result, controls around the initiation and processing of payments by the Amsterdam office was deemed ineffective. Authorization levels established at the Company's bank in the Netherlands allowed payments to be made by only one employee, rather than the accepted North American model of two employees required. While there were several instances of payments being made with only one employee involved, all of the payments made by only one person were found to be legitimate. It was determined that the bank account was set up this way due to a difference in corporate culture rather than to allow malicious activity. Existing controls confirmed the legitimacy of the payments made and no adjustments to company transactions were required. During the first and second quarters of 2018, the Company has updated its procedures in the Amsterdam office to ensure that authorization by two employees is necessary to make payments.

Management has addressed the weakness discovered in the review of its internal controls and procedures and believes they are effective in providing reasonable assurance that financial information is recorded, processed, summarized and reported in a timely and accurate manner.

The Company intends to utilize independent internal controls specialists in the future to make sure that its systems are operating as efficiently and effectively as possible.

## **ADDITIONAL INFORMATION**

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

## CORPORATE INFORMATION

Head Office:	1090 Hamilton Street Vancouver, BC, V6B 2R9
Directors:	Steve Bromley (Chair) Jeffrey Klenda (Chair, Audit Committee) Claudio Schreier Javier Reyes Robert Giustra
Officers:	Steve Bromley, Interim Chief Executive Officer & President Rients van der Wal, Chief Executive Officer, Organto Europe B.V. Peter Thibaudier, Interim Chief Financial Officer Peter Gianulis, Executive Vice President, Corporate Development Ralf Langner, Interim Corporate Secretary
Auditor:	DMCL LLP 1500 – 1140 West Pender Street Vancouver, BC, V6E 4G1
Legal Counsel:	McMillan LLP Suite 1500 - 1055 West Georgia Street Vancouver, BC, V6E 4N7
Transfer Agent:	Computershare Investor Services 2 <sup>nd</sup> Floor – 510 Burrard Street Vancouver, BC, V6C 3B9