

# **INDIVA LIMITED**

(formerly Rainmaker Resources Ltd.)

## **Annual Consolidated Financial Statements**

(Expressed in Canadian dollars)

**For the years ended December 31, 2018 and 2017**

To the Shareholders of Indiva Limited (formerly Rainmaker Resources Ltd.):

## Opinion

We have audited the consolidated financial statements of Indiva Limited (formerly Rainmaker Resources Ltd.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and 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.

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

## Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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.

## Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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 Consolidated Financial Statements

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

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

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 Shawn Mincoff.

Ottawa, Ontario

April 29, 2019

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

**Indiva Limited (formerly Rainmaker Resources Ltd.)****Consolidated Statements of Financial Position**

(Expressed in Canadian dollars)

As at	December 31, 2018	December 31, 2017
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	19,565,606	21,303,886
Taxes receivable	598,623	195,845
Investment	-	89,164
Inventory (Note 6)	1,159,276	-
Prepaid expenses and other (Note 7)	1,585,165	489,404
<b>Total current assets</b>	<b>22,908,670</b>	<b>22,078,299</b>
<b>Other non-current assets</b>		
Property, plant and equipment (Note 8)	5,293,571	5,256,123
Assets in process (Note 9)	3,984,293	102,483
Intangible assets (Note 10)	346,218	93,850
Loan to joint venture (Note 13)	1,364,150	-
Investment in joint venture (Note 13)	50	-
Royalty investment (Note 14)	1,948,950	17,840
<b>Total assets</b>	<b>35,845,902</b>	<b>27,548,595</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,053,238	353,302
Convertible debenture (Note 11)	4,397,610	-
<b>Total current liabilities</b>	<b>6,450,848</b>	<b>353,302</b>
<b>Other non-current liabilities</b>		
Deferred tax liability (Note 16)	-	282,303
Convertible debenture (Note 11)	-	8,092,903
<b>Total liabilities</b>	<b>6,450,848</b>	<b>8,728,508</b>
<b>Equity</b>		
Share capital (Note 12)	37,282,515	20,483,947
Reserves (Note 12)	6,548,367	4,230,800
Accumulated other comprehensive loss	(19,537)	(5,000)
Accumulated deficit	(14,416,291)	(5,889,660)
<b>Total equity</b>	<b>29,395,054</b>	<b>18,820,087</b>
<b>Total liabilities and equity</b>	<b>35,845,902</b>	<b>27,548,595</b>
Commitments (Note 22) and Subsequent Events (Note 25)		

N. Marotta

Carmine (Niel) Marotta

J. Yersh

James Yersh

The accompanying notes are an integral part of these consolidated financial statements

**Indiva Limited (formerly Rainmaker Resources Ltd.)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
For the years ended December 31, 2018 and 2017  
(Expressed in Canadian dollars)

	2018	2017
	\$	\$
Revenue	58,307	-
Cost of goods sold	(55,788)	-
<b>Gross margin before fair value adjustments depreciation</b>	<b>2,519</b>	-
Unrealized fair value adjustment on biological assets (Note 5)	98,931	-
<b>Gross margin</b>	<b>101,450</b>	-
<b>Operating expenses</b>		
Salaries	2,240,248	867,218
Stock-based compensation (Note 12c)	909,714	236,204
Pre-production costs	705,260	96,829
Rent, utilities and facility costs	699,332	485,178
Marketing and branding	605,457	270,415
Accretion of debenture discount	620,136	86,909
Professional fees	567,598	115,278
Consulting fees	537,338	295,712
Travel, meals and entertainment	432,816	84,139
Investor relations and public company costs	390,745	17,274
Interest	544,081	161,739
Office, telecommunications and IT	198,270	63,299
Insurance	58,512	40,139
Depreciation and amortization	407,088	188,365
Write off of employee advance	-	50,000
Unrealized exchange gain	(62,373)	-
Realized exchange loss	11,014	-
Loss on disposal of equipment	5,189	1,043
<b>Total operating expenses</b>	<b>8,870,425</b>	<b>3,059,741</b>
<b>Net loss before interest income and tax</b>	<b>(8,768,975)</b>	<b>(3,059,741)</b>
Interest income	112,881	29,649
<b>Net loss before tax</b>	<b>(8,656,094)</b>	<b>(3,030,092)</b>
Deferred tax recovery	129,463	47,959
<b>Net loss</b>	<b>(8,526,631)</b>	<b>(2,982,133)</b>
Transaction costs on reverse takeover	-	(1,407,815)
Transaction costs on derivative financial instrument	-	(162,252)
Loss on investment	(14,537)	(5,000)
<b>Total comprehensive loss</b>	<b>(8,541,168)</b>	<b>(4,557,200)</b>
Net loss per common share, basic and diluted	(0.11)	(0.12)
Weighted average number of common shares outstanding, basic and diluted	79,551,118	38,440,251

The accompanying notes are an integral part of these consolidated financial statements

**Indiva Limited (formerly Rainmaker Resources Ltd.)**

**Consolidated Statements of Changes in Equity**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	Share capital		Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
	#	\$				
<b>Balance, January 1, 2018</b>	60,946,413	20,483,947	4,230,800	(5,889,660)	(5,000)	18,820,087
Share capital issued	14,238,150	14,950,058	-	-	-	14,950,058
Share issuance costs	-	(1,441,821)	-	-	-	(1,441,821)
Issuance of warrants	-	(1,566,197)	1,566,197	-	-	-
Issuance of finders warrants	-	(657,802)	657,802	-	-	-
Partial conversion of December 2017 debenture	7,799,998	5,501,255	(995,661)	-	-	4,505,594
Exercise of warrants	51,667	51,950	(12,200)	-	-	39,750
Stock-based compensation	-	-	909,714	-	-	909,714
Deferred tax recovery	-	(38,875)	191,715	-	-	152,840
Net loss for the year	-	-	-	(8,526,631)	-	(8,526,631)
Other comprehensive loss	-	-	-	-	(14,537)	(14,537)
<b>Balance, December 31, 2018</b>	<b>83,036,228</b>	<b>37,282,515</b>	<b>6,548,367</b>	<b>(14,416,291)</b>	<b>(19,537)</b>	<b>29,395,054</b>

	Share capital		Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
	Shares	Amount				
	#	\$				
<b>Balance, January 1, 2017</b>	26,940,000	3,712,218	93,231	(1,337,460)	-	2,467,989
Share capital issued for cash	26,081,085	13,569,700	-	-	-	13,569,700
Share capital issued in consideration for accrued interest	312,000	99,840	-	-	-	99,840
Share capital issued for services	680,000	217,600	-	-	-	217,600
Share capital issued as employee compensation	400,000	128,000	-	-	-	128,000
Share issuance costs	-	(770,639)	-	-	-	(770,639)
Conversion of November 2016 debenture	2,400,000	861,231	(93,231)	-	-	768,000
Conversion of June 2017 debenture	2,800,000	1,806,000	294,000	-	-	2,100,000
Issuance of convertible debt	-	-	1,363,712	-	-	1,363,712
Issuance of warrants	-	-	2,152,154	-	-	2,152,154
Shares retained by Rainmaker shareholders	1,333,328	859,997	-	-	-	859,997
Options retained by Rainmaker shareholders	-	-	28,970	-	-	28,970
Warrants retained by Rainmaker shareholders	-	-	198,428	-	-	198,428
Stock-based compensation	-	-	193,536	-	-	193,536
Net loss for the year	-	-	-	(4,552,200)	-	(4,552,200)
Other comprehensive loss	-	-	-	-	(5,000)	(5,000)
<b>Balance, December 31, 2017</b>	<b>60,946,413</b>	<b>20,483,947</b>	<b>4,230,800</b>	<b>(5,889,660)</b>	<b>(5,000)</b>	<b>18,820,087</b>

The accompanying notes are an integral part of these consolidated financial statements

**Indiva Limited (formerly Rainmaker Resources Ltd.)****Consolidated Statement of Cash Flow**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	2018	2017
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	<b>(8,526,631)</b>	(4,552,200)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	<b>407,088</b>	188,365
Interest income	<b>(112,882)</b>	(29,649)
Accretion of convertible debenture discount	<b>620,136</b>	86,909
Interest on convertible debenture	<b>538,843</b>	159,941
Fair value adjustment on biological assets	<b>(98,931)</b>	-
Transaction costs on convertible debenture	-	1,570,067
Loss on disposal of property, plant and equipment	<b>5,189</b>	1,043
Unrealized exchange loss	<b>(62,373)</b>	-
Write off of employee advance	-	50,000
Shares issued to employee for no consideration	-	42,667
Deferred tax recovery	<b>(129,463)</b>	(47,959)
Stock-based compensation	<b>909,715</b>	193,537
Non-cash consulting fees	<b>98,480</b>	131,552
Changes in non-cash operating working capital (Note 17)	<b>(3,186,416)</b>	(4,541)
<b>Total cash outflows used in operating activities</b>	<b>(9,537,245)</b>	(2,210,268)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loan to joint venture (Note 13)	<b>(1,294,950)</b>	-
Investment in joint venture (Note 13)	<b>(50)</b>	-
Acquisition of assets in process (Note 9)	<b>(3,374,630)</b>	(2,651,595)
Acquisition of property, plant and equipment (Note 8)	<b>(333,044)</b>	(210,287)
Acquisition of intangible assets (Note 10)	<b>(284,950)</b>	(39,000)
Proceeds on disposal of investment	<b>73,609</b>	-
Net cash acquired in reverse takeover	-	4,163
Transaction costs on reverse takeover	-	(353,519)
Proceeds on disposal of equipment	<b>1,000</b>	16,535
Interest received	<b>112,882</b>	29,649
<b>Total cash outflows used in investing activities</b>	<b>(5,100,133)</b>	(3,204,054)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from financing (Note 12)	<b>14,950,058</b>	15,206,174
Share issuance costs	<b>(1,446,321)</b>	(811,151)
Net proceeds from convertible debenture (Note 11)	-	12,104,108
Proceeds from exercise of warrants	<b>39,750</b>	-
Interest paid on convertible debentures	<b>(644,389)</b>	(50,833)
<b>Total cash inflows from financing activities</b>	<b>12,899,098</b>	26,448,298
<b>Increase (decrease) in cash</b>	<b>(1,738,280)</b>	21,033,976
<b>Cash and cash equivalents, beginning of year</b>	<b>21,303,886</b>	269,910
<b>Cash and cash equivalents, end of year</b>	<b>19,565,606</b>	21,303,886

Supplemental cash flow information is provided in Note 17

The accompanying notes are an integral part of these consolidated financial statements

## **Indiva Limited (formerly Rainmaker Resources Ltd.)**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

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#### **1. CORPORATE INFORMATION**

Indiva Limited (the “Company”), formerly Rainmaker Resources Ltd. (“Rainmaker”), was incorporated on September 13, 1979 as “Thunder Sword Resources Inc.” under the Laws of British Columbia. On November 20, 2009, the Company changed its name to Rainmaker Mining Corp., and on May 8, 2014 as part of the Company’s rebranding, the Company again changed its name to Rainmaker Resources Ltd.

On December 13, 2017, the Company completed a reverse takeover transaction, pursuant to which INDIVA Corporation amalgamated with a wholly-owned subsidiary of the Company and was subsequently renamed INDIVA Limited. The Company’s common shares resumed trading on the TSX Venture Exchange (the “TSXV”) under the symbol “NDVA” on December 19, 2017. At the July 24, 2018 Annual General Meeting, approval of the voluntary delisting of the Company’s securities from the TSX Venture Exchange and subsequent listing on the Canadian Securities Exchange (“CSE”) was passed by shareholder vote. The relisting on the CSE is ongoing.

Its wholly-owned subsidiary, INDIVA Inc. is a licensed producer of marijuana under the Cannabis Act and Cannabis Regulations (formerly Health Canada’s Access to Cannabis for Medical Purposes Regulations “ACMPR”), focused on cultivating cannabis as well as expanding its production facility in London, Ontario. The Company received the sales amendment to their license August 10, 2018.

The address of the Company’s corporate office is 343 Preston Street, 11<sup>th</sup> Floor, Ottawa, Ontario, K1S 1N4.

#### **2. BASIS OF PRESENTATION**

##### **(a) STATEMENT OF COMPLIANCE**

The annual consolidated financial statements (the “Financial Statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”) in effect for the year ended December 31, 2018.

These Financial Statements were approved and authorized for issue by the Board of Directors on April 29, 2019.

##### **(b) BASIS OF MEASUREMENT**

These Financial Statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value and biological assets which are measured at fair value less cost to sell, and are presented in Canadian dollars.

The preparation of consolidated financial statements in accordance with IFRS requires Management to make certain critical accounting estimates. It also requires Management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these Financial Statements, are disclosed in Note 4.

These Financial Statements have been prepared on the basis of principles applicable to a going concern which assumes the Company will continue to meet its obligations and discharge its liabilities for the foreseeable future. The Company raises funds in the debt and equity market to conduct its activities. The Company has incurred losses in the current and prior periods, with a net loss of \$8,526,631 during the



**Indiva Limited (formerly Rainmaker Resources Ltd.)****Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

year ended December 31, 2018 and an accumulated deficit of \$14,416,291 at December 31, 2018 (December 31, 2017 - \$5,889,660). Based on the Company's current estimate of planned expenditures, funds on hand at December 31, 2018 can fund operations beyond the next twelve months. In order to fund further operations, the Company must raise additional debt or equity capital. There is no assurance that the Company will be able to raise additional funds.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS**

The accounting policies set out below have been applied on a consistent basis to all years presented in these Financial Statements.

**(a) BASIS OF CONSOLIDATION**

These Financial Statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Control is established when the Company has the power to govern the financial and operating policy decisions of the entity so as to obtain benefits from the entity's activities, and generally exists when more than 50% of the voting power of the entity is held by the Company. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All material intercompany transactions and balances are eliminated in full upon consolidation.

The subsidiaries of the Company and their principal activities as at December 31, 2018 were as follows:

Name of subsidiary	Place of incorporation	Ownership interest as at		Principal activity
		December 31, 2018	December 31, 2017	
Indiva Amalco Ltd.	Ontario	100%	100%	Holding company
Indiva Inc. (formerly 1891705 Ontario Ltd.)	Ontario	100%	100%	Licensed Producer under Cannabis Act
Vieva Canada Ltd.	Ontario	100%	100%	Holds lease for production facility
2639177 Ontario Inc.	Ontario	50%	-	Joint venture with associate

**(b) PRESENTATION CURRENCY AND FOREIGN CURRENCY TRANSLATION**

These Financial Statements are presented in Canadian dollars. The functional currency for each subsidiary consolidated with the Company is determined by the currency of the primary economic environment in which it operates (the "functional currency"). The Company and its subsidiaries functional currency is the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transaction.

## **Indiva Limited (formerly Rainmaker Resources Ltd.)**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

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At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date, while non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from retranslation are recognized in net income (loss).

#### **(c) FINANCIAL INSTRUMENTS**

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories; amortised cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or fair value through other comprehensive income. The effective date of this standard was January 1, 2018. The Company has adopted this new standard as of its effective date on a retrospective basis with the exception of financial assets that were derecognized at the date of initial application, January 1, 2018. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of the initial application of IFRS 9. As a result of the new classification model and measurement requirements under IFRS 9, the Company has elected to classify the available for sale investments as fair value through other comprehensive income. Due to the adoption of IFRS 9, during the year ended December 31, 2018, a loss of \$14,537 on the investments held as fair value through other comprehensive income were recorded in other comprehensive income. The new classification and measurement of the Company's financial assets and liabilities are as follows:

##### **(i) Fair value through other comprehensive income ("FVTOCI")**

This category only includes equity instruments, which the Company intends to hold for the foreseeable future and which the Company has irrevocably elected to so classify upon initial recognition or transition. The Company classified its investment as an equity instrument at FVTOCI. Equity instruments in this category are subsequently measured at fair value with changes recognized at other comprehensive income. Equity instruments at FVTOCI are not subject to an impairment assessment under IFRS 9.

##### **(ii) Amortised cost**

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect the contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial assets classified in this category are carried at amortised cost using the effective interest method.

##### **(iii) Fair value through profit or loss ("FVTPL")**

This category includes derivative instruments and equity instruments which the Company has not irrevocably elected, at initial recognition or transition, to classify as FVTOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognized in profit or loss.

## **Indiva Limited (formerly Rainmaker Resources Ltd.)**

### **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

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#### (iv) Financial liabilities

Financial liabilities held for trading, as well as loan commitments and financial guarantee contracts that are designated at FVTPL will continue to be measured at fair value with all changes being recognized in profit or loss.

The assessment of the Company's business models was made as of the date of the initial application, January 1, 2018, and then applied retrospectively to those financial assets that were not derecognized before January 1, 2018.

The Company has made the following classifications with respect to its financial instruments:

- Cash and cash equivalents are classified as FVTPL, which is measured at fair value.
- Investments are classified as FVTOCI and are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss).
- Loan to joint venture, accounts payable and accrued liabilities and convertible debentures are measured as amortised cost, using the effective interest method.

Financial assets measured at amortised cost, are assessed for indicators of impairment at the end of each reporting period. A financial asset is considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the discounted estimated future cash flows of the financial asset have been impacted.

Under IFRS 9, the Company is required to apply an expected credit loss ("ECL") model to all debt financial assets not held at FVTPL, where credit losses are expected to transpire in future years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. IFRS 9 requires the Company to record an allowance for ECLs for all debt financial assets not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation of the asset's original effective interest rate. The Company has assessed the impairment of its amounts receivable using the expected credit loss model, and no difference was noted. As a result, no impairment loss has been recognized.

#### (v) Compound Instruments

The components of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, and is not subsequently remeasured. In addition, the conversion option classified as equity will

**Indiva Limited (formerly Rainmaker Resources Ltd.)****Notes to the Consolidated Financial Statements**

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(Expressed in Canadian dollars)

remain in equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debentures using the effective interest method.

<b>Financial Instrument</b>	<b>IAS 39 Classification</b>	<b>IFRS 9 Classification</b>
Cash and cash equivalents	Fair value through profit and loss	Fair value through profit and loss
Investment	Assets held for sale	Fair value through other comprehensive income
Loan to joint venture	NA	Amortised cost
Accounts payable and accrued liabilities	Amortised cost	Amortised cost
Convertible debentures	Amortised cost	Amortised cost

**(d) REVENUE**

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers effective January 1, 2018. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing.

The Company has applied IFRS 15 retrospectively and determined that there is no change to the comparative period or transitional adjustments required as a result of the adoption. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company satisfies the performance obligation(s).

Revenue from the direct sale of cannabis to customers for a fixed price is recognized when the Company transfers the control of the good(s) to the customer upon delivery and acceptance by the customer, the timing of which is consistent with the Company's previous revenue recognition policy under IAS 18.

**(e) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents includes cash in interest-bearing accounts with high credit quality financial institutions and other short-term, highly liquid investments with original maturities of one year or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

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**(f) ROYALTY INVESTMENT**

The Company measures royalty investments that have a finite term at amortised cost on a straight-line basis over the life of the per unit basis. Amortization commences when the investee demonstrates commercial operations that reflect the economic benefits the Company is entitled to.

Royalty investments that have an indefinite life are measured at acquisition cost, are not amortized and are tested for impairment at each reporting period. Any royalty investment that has yet to generate revenue is also tested for impairment.

If non-repayable advances are made to a royalty investee with the intent of additional capital investment, such costs will be added to the royalty investment balance.

**(g) PROPERTY, PLANT AND EQUIPMENT ("PPE")**

Upon initial acquisition, PPE is valued at cost, being the purchase price and directly attributable costs required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by Management. In subsequent periods, PPE is stated at cost less accumulated depreciation and any impairment in value.

Assets acquired but not yet put into its intended use are categorized as assets in process and are moved to PPE once they are ready for use.

PPE is amortized using the straight-line method over the estimated useful lives of the assets. Where significant components of assets have differing useful lives, depreciation is calculated on each separate component.

Estimates of remaining useful lives and residual values are reviewed annually, with any modifications accounted for prospectively.

Depreciation is calculated on a straight-line basis over the following useful lives:

Facility equipment	3 to 20 years
Office equipment and furniture	3 years
Computer Hardware and Software	3 years
Promotional Vehicle	8 years
Leasehold Improvements	Remaining Lease Term

**Major maintenance and repairs**

Major maintenance and repair expenditures include the cost of asset replacement parts and overhaul costs. When an asset or part of an asset is replaced or overhauled and it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured, that expenditure is capitalized and the carrying amount of the item replaced is derecognized. All maintenance and repair costs, except major overhaul and replacement costs, are expensed as incurred in net income (loss).

## **Indiva Limited (formerly Rainmaker Resources Ltd.)**

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#### **Gains and losses**

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount and are recognized in other income (loss).

#### **(h) IMPAIRMENT OF FINANCIAL AND NON-FINANCIAL ASSETS**

The Company assesses financial assets and non-financial assets for impairment when facts and circumstances suggest that the carrying amount of the asset may not exceed its recoverable amount, being the higher of the value in use and the fair value less costs to sell. In assessing value in use, the estimated future cash flows associated with the asset 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 for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment recognized immediately in net income (loss).

Where an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined had impairment not been recognized for the asset in prior periods.

#### **(i) INTANGIBLES**

Finite life intangible assets are comprised of a lease buyout which was acquired as part of the Company's acquisition of 1891705 Ontario Ltd, Genetics rights which provide the company with the right to use certain strains, and Book Rights. Finite life intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is calculated on a straight-line basis over the following useful lives:

Lease Buyout	2 years 5 months to 5 years
Genetics	20 years
Book Rights	5 years

#### **(j) PROVISIONS AND CONTINGENT LIABILITIES**

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The Company does not currently have any provisions.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

#### **(k) INCOME TAXES**

Income tax expense consists of current and deferred income taxes and includes all taxes based on taxable profits. Current and deferred income taxes are included in net income (loss) except to the extent that they relate to items recognized directly in equity or other comprehensive income (loss).

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Deferred income taxes are determined using the liability method where there are differences between the carrying amounts and tax bases of assets and liabilities, and unused tax losses and credits. Deferred tax liabilities and assets are measured by applying tax rates that are expected to apply when the amounts are realized or settled respectively, based on enacted or substantively enacted tax rates and laws at the end of the current financial reporting year. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be realized and is later reduced if the Company determines it is no longer probable to be realized. The Company has not currently recognized any deferred tax assets or liabilities.

#### **(l) SHARE CAPITAL**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial asset or liability. The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issuance of new equity instruments are shown in equity as a deduction from the proceeds of issuance.

Options or warrants issued at the same time as the issuance of common shares are recorded at fair value based on the residual method. Proceeds are first allocated to the shares according to the fair value of the common shares and any residual of the proceeds is allocated to the options or warrants.

#### **(m) EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding for the year.

Diluted earnings (loss) per share is computed by dividing the net income (loss) attributable to the common shareholders of the Company by the weighted average number of common shares outstanding for the year including all additional common shares that would have been outstanding if potentially dilutive equity instruments were converted to common shares. The diluted loss per share is equal to the basic loss per share because the effect of options and warrants are antidilutive.

#### **(n) SHARE-BASED COMPENSATION**

The Company has a share-based compensation plan (the "Plan") described in Note 12(c). Compensation costs are measured at the grant date based on the fair value of the award and are recognized over the vesting period in net income (loss), with a corresponding increase to reserves. Upon exercise, common shares are issued from treasury and the amount reflected in the reserves is credited to share capital, as adjusted for any consideration paid.

The Black-Scholes option pricing model incorporates highly subjective assumptions, including volatility and expected time until exercise, which affect the calculated values. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net income (loss) such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Options issued to non-employees are measured based on the fair value of the services received at the date of receiving those services. If the fair value of the goods or services cannot be estimated reliably, the

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options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

#### **(o) BIOLOGICAL ASSETS**

The Company's biological assets consist of cannabis plants. The Company capitalizes the direct and indirect costs incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest including labour related costs, depreciation and amortization of assets related to growing, grow consumables, materials, utilities, facilities costs, quality control and testing costs. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The identified capitalized direct and indirect costs of biological assets are subsequently recorded within the line item "cost of goods sold" on the statement of loss and comprehensive loss in the period that the related product is sold. The new unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the results of operations of the related year. Biological assets are considered level 3 fair value estimates.

#### **(p) INVENTORIES**

Inventories include harvested cannabis, finished goods, and acquired products. These items are valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell at harvest which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Finished goods consists of purchased inventories for resale, supplies, and consumables, which are valued at the lower of costs and net realizable value, with cost determined using the average cost basis. The identified capitalized direct and indirect costs related to inventory are subsequently recorded within 'costs of good sold' on the statement of loss at the time the product is sold, with the exclusion of realized fair value amounts included in inventory sold which are recorded as a separate line within gross margin. Any other supplies that are used in production are recorded at cost and expensed as used.

#### **(q) INTERESTS IN EQUITY-ACCOUNTED INVESTEEES AND JOINT VENTURES**

The Company's interest in equity accounted investees is comprised of its interest in a joint venture.

In accordance with IFRS 11 – Joint Arrangements; a joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method in accordance with IAS 28. They are recognized initially at cost, which includes transaction costs. After initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income ("OCI") of equity accounted investees until the date on which significant influence or joint control ceases.



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Unrealized gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment.

#### **(r) SEGMENTED REPORTING**

The Company operates in one business segment being the production of medical marijuana as a Licensed Producer under the ACMPR. At December 31, 2018, the Company had operations in one geographic area, Canada.

#### **(s) CHANGES IN ACCOUNTING POLICIES**

The Company has not early adopted any amendment, standard or interpretation that has been issued by the International Accounting Standards Board ("IASB") but is not yet effective.

#### **(t) STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE**

##### **Leases**

In January 2016, the IASB issued IFRS 16, Leases and is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have also adopted IFRS 15. IFRS 16 provides a comprehensive model for the measurement, presentation and disclosure of leases and supersedes IAS 17, Leases. The adoption of IFRS 16 will result in substantially all lessee leases being recorded on the balance sheet as an asset with a corresponding liability with both current and long-term portions. The Company has assessed the impact of the new IFRS standard, and notes it will have no material impact on the Company's financial statement.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these Financial Statements requires Management to make estimates and assumptions about the future that affect the amounts recorded in the Financial Statements. These estimates and assumptions are based on the Company's experience and Management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and assumptions. The effect of a change in accounting estimate is recognized prospectively in the period of change and future periods if the change impacts both periods.

##### **Judgments**

###### *Going concern risk assessment*

Management considers whether there exists any event(s) or condition(s) that may cast significant doubt on the Company's ability to continue as a going concern. Considerations take into account all available information about the future including the availability of debt and equity financing as well as the Company's working capital balance and future commitments.

###### *Classification of convertible debenture as financial liability and equity*

Management has determined that based on the terms of the convertible debenture, the host debt component should be classified as a financial liability and measured at the contractual cash flow discounted at the market interest rate of a similar debt instrument with no conversion feature while the residual balance, representing the conversion feature, is classified as reserves in equity.

## Indiva Limited (formerly Rainmaker Resources Ltd.)

### Notes to the Consolidated Financial Statements

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#### *Biological assets and inventory*

In calculating the value of the biological assets, management is required to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, average or expected selling prices and list prices, and expected yields for the cannabis plants. In calculating final inventory values, management compares the inventory cost to estimated net realizable value.

#### Estimates

##### *Market interest rate*

In calculating the discounted contractual cash flow on the host debt component of the convertible debenture, a key estimate of the market interest rate of a similar debt instrument with no conversion features is used.

##### *Estimated useful lives and depreciation of PPE and intangible assets*

Management reviews its estimate of the useful life of PPE and intangible assets annually and accounts for any changes in estimates prospectively.

##### *Fair value of options and warrants*

The fair value of options and warrants is calculated using the Black-Scholes pricing model. In calculating the share-based compensation expense and the fair value of warrants, key estimates, such as the value of the common share, the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. Expected volatility is based on the share price volatility of five comparable publicly traded companies from within the same industry.

## 5. BIOLOGICAL ASSETS

The changes in the carrying value of the biological assets are as follows:

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
	<b>\$</b>	<b>\$</b>
Carrying amount, beginning of year	-	-
Production costs capitalized	78,360	-
Net increase in fair value due to biological transformation less cost to sell	98,931	-
Plants sold prior to harvest	(25,000)	-
Transferred to inventory upon harvest	(152,291)	-
<b>Carrying amount, end of year</b>	<b>-</b>	<b>-</b>

As at December 31, 2018, the fair value of biological assets included \$Nil in cannabis plants (\$Nil as at December 31, 2017) as it was converting its existing grow room into a mother room to accommodate the increased number of mother plants and clones required for its expansion into its new grow space.

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The significant estimates used in determining the fair value of cannabis plants are as follows:

- Fair value selling price per gram less cost to complete and cost to sell.

All biological assets are classified as current assets on the balance sheet and are considered Level 3 fair value estimates.

The valuation of biological assets is based on an income approach in which the fair value at the point of harvesting is estimated based on selling prices less the costs to sell.

Management's identified significant unobservable inputs, their range of values and sensitivity analyses are presented in the table below:

<b>Unobservable Inputs</b>	<b>Input Values</b>	<b>Sensitivity Analysis</b>
<b>Average Selling Price</b>		
Obtained through actual bulk purchase and sale prices observed in the marketplace	\$6.73 per gram	An increase or decrease of 5% applied to the average selling price would not result in a material change in valuation.

**6. INVENTORY**

Inventory as at December 31, 2018 and December 31, 2017 consisted of the following:

	\$	December 31, 2018 \$	December 31, 2018 \$	December 31, 2017 \$
	Cost	Biological assets transferred to inventory	Total	Total
Dry cannabis	855,910	152,291	1,008,201	-
Packaging, supplies and other inventory	151,075	-	151,075	-
<b>Total inventory</b>	<b>1,006,985</b>	<b>152,291</b>	<b>1,159,276</b>	<b>-</b>

The inventory expensed to cost of goods sold in the year ended December 31, 2018 was \$55,788 (December 31, 2017 - \$Nil).

**7. PREPAID EXPENSES AND OTHER**

	December 31, 2018 \$	December 31, 2017 \$
Equipment and construction deposits	688,222	-
Rent, security and utility deposits	605,564	134,925
Building purchase deposit	150,000	-
Other prepayments	141,379	354,479
<b>Total prepaid expenses and other</b>	<b>1,585,165</b>	<b>489,404</b>

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**8. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold Improvements \$	Facility equipment \$	Vehicle \$	Office equipment and furniture \$	Total \$
<b>Cost</b>					
Balance, January 1, 2017	-	9,564	27,055	6,261	42,880
Additions	8,408	65,296	71,308	74,736	219,748
Transferred from assets in process	4,315,821	849,331	-	24,687	5,189,839
Disposals	-	-	(27,055)	(3,660)	(30,715)
<b>Balance, December 31, 2017</b>	<b>4,324,229</b>	<b>924,191</b>	<b>71,308</b>	<b>102,024</b>	<b>5,421,752</b>
Additions	33,060	226,266	3,394	134,759	397,479
Transferred from assets in process	-	20,663	-	-	20,663
Disposals	-	(6,722)	-	-	(6,722)
<b>Balance, December 31, 2018</b>	<b>4,357,289</b>	<b>1,164,398</b>	<b>74,702</b>	<b>236,783</b>	<b>5,833,172</b>
<b>Accumulated depreciation</b>					
Balance, January 1, 2017	-	2,845	6,200	1,353	10,398
Depreciation for the year	71,651	72,007	6,901	17,806	168,365
Disposals	-	-	(12,117)	(1,017)	(13,134)
<b>Balance, December 31, 2017</b>	<b>71,651</b>	<b>74,852</b>	<b>984</b>	<b>18,142</b>	<b>165,629</b>
Depreciation for the year	146,374	156,726	9,453	61,952	374,505
Disposals	-	(533)	-	-	(533)
<b>Balance, December 31, 2018</b>	<b>218,025</b>	<b>231,045</b>	<b>10,437</b>	<b>80,094</b>	<b>539,601</b>
<b>Carrying amounts as at:</b>					
December 31, 2017	4,252,578	849,339	70,324	83,882	5,256,123
<b>December 31, 2018</b>	<b>4,139,264</b>	<b>933,353</b>	<b>64,265</b>	<b>156,689</b>	<b>5,293,571</b>

Interest of \$Nil was capitalized to leasehold improvements during the period ended December 31, 2018 (\$43,430 - period ended December 31, 2017). \$51,128 in additions were included in accounts payable and accrued liabilities at December 31, 2018 (\$9,460 as at December 31, 2017)

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**9. ASSETS IN PROCESS**

	<b>Leasehold improvements</b>	<b>Facility equipment</b>	<b>Office equipment and furniture</b>	<b>Intangible assets</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
Balance, January 1, 2017	2,986,289	273,781	24,687	-	3,284,757
Additions	1,432,015	575,550	-	-	2,007,565
Transferred to PPE	(4,315,821)	(849,331)	(24,687)	-	(5,189,839)
Balance, December 31, 2017	102,483	-	-	-	102,483
Additions	3,773,323	26,601	102,549	21,000	3,923,473
Transferred to PPE	-	(20,663)	-	-	(20,663)
Transferred to Intangibles	-	-	-	(21,000)	(21,000)
<b>Balance, December 31, 2018</b>	<b>3,875,806</b>	<b>5,938</b>	<b>102,549</b>	<b>-</b>	<b>3,984,293</b>

As at December 31, 2018, \$964,190 (\$62,452 – year ended December 31, 2017) of additions to assets in process were included in accounts payable and accrued liabilities. \$20,663 in facility equipment was transferred out of assets in process to property, plant and equipment during the year and \$26,411 was transferred out of assets in process to Intangible assets during the year (\$4,315,821 in leasehold improvements, \$849,331 in facility equipment and \$24,687 in office furniture equipment transferred out to property, plant and equipment in the year ended December 31, 2017).

Interest of \$295,710 was capitalized to leasehold improvements during the period ended December 31, 2018 at a capitalized interest rate of 27.7%. (\$Nil - period ended December 31, 2017).

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**10. INTANGIBLE ASSETS**

	Lease buyout	Trademark	Genetics	Book rights	Total
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, January 1, 2017	100,000	1,517	-	-	101,517
Additions	-	-	15,000	24,000	39,000
Balance, December 31, 2017	100,000	1,517	15,000	24,000	140,517
Transferred from assets in process	-	-	-	21,000	21,000
Additions	15,000	-	196,575	52,375	263,950
<b>Balance, December 31, 2018</b>	<b>115,000</b>	<b>1,517</b>	<b>211,575</b>	<b>97,375</b>	<b>425,467</b>
<b>Accumulated depreciation</b>					
Balance, January 1, 2017	26,667	-	-	-	26,667
Amortization for the year	20,000	-	-	-	20,000
Balance, December 31, 2017	46,667	-	-	-	46,667
Amortization for the year	23,621	1,517	2,575	4,869	32,582
<b>Balance, December 31, 2018</b>	<b>70,288</b>	<b>1,517</b>	<b>2,575</b>	<b>4,869</b>	<b>79,249</b>
<b>Carrying amounts as at:</b>					
December 31, 2017	53,333	1,517	15,000	24,000	93,850
<b>December 31, 2018</b>	<b>44,712</b>	<b>-</b>	<b>209,000</b>	<b>92,506</b>	<b>346,218</b>

**11. DERIVATIVE FINANCIAL INSTRUMENT AND CONVERTIBLE DEBENTURES**Derivative Financial Instrument ("June 2017 Convertible Debenture")

On June 15, 2017, the Company issued a \$2,100,000 unsecured convertible debenture, with no coupon which will mandatorily convert into common shares of the Company upon closing of the Reverse Takeover at the same price as the equity financing being concurrently raised. The debenture matured June 15, 2018. The Company paid transactions costs of 7% cash (\$147,000) and 7% warrants (49 warrants - pre-stock split). The transaction costs have been recorded as financing costs within the statement of loss and comprehensive loss.

The convertible debenture is a hybrid financial instrument comprising a liability and an embedded derivative. Upon issuance, the Company designated the entire hybrid convertible debenture as a financial liability at fair value through profit. On the initial measurement date, the fair value of the convertible debenture was determined to be equal to the transaction price of \$2,100,000. On December 13, 2017, prior to the closing of the Reverse Takeover, the debenture was converted into 700 (pre-stock split) common shares of Indiva Corporation at the conversion price of \$3,000 per share (pre-stock split) and 350 (pre-stock split) common share purchase warrants, each warrant being exercisable into a common share of Indiva Corporation at \$3,600 per share (pre-stock split) for a period of two years. There was no impact to fair value recorded in the statement of loss.

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#### December 2017 Convertible Debenture

On December 13, 2017, the Company issued a \$11,000,000 unsecured convertible debenture, with a coupon rate of 10% which can be converted into common shares of the Company at a rate of \$0.75 per share at any time and matures on December 13, 2019. The coupon is paid semi-annually on the last day of June and December.

The convertible debenture is considered to be a compound instrument comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 21.9%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the statement of financial position. The Company paid transaction costs of 7% cash (\$770,000) and legal costs of \$68,079 and 7% warrants (1,024,000 warrants). The debenture, net of the equity component, is accreted using the effective interest method over the term of the debenture such that the carrying amount of the financial liability will equal the principal balance at maturity using an effective interest rate of 27.7%. As part of the transaction, deferred tax liabilities of \$239,478 were recorded.

The holder exercised their right of conversion on January 4, 2018, converting \$2,000,000 of the debt into 2,666,666 common shares of the Company. On January 22, 2018, a further \$1,500,000 of debt was converted into 2,000,000 common shares of the Company. On March 9, 2018, \$350,000 of debt was converted into 466,666 common shares, on March 12, 2018, \$500,000 of debt was converted into 666,666 common shares and on September 7, 2018 \$1,500,000 of debt was converted into 2,000,000 common shares. All conversions were at \$0.75 per share.

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Convertible debentures consist of the following:

	<b>Debt component</b>	<b>Equity component</b>	<b>Total</b>
	\$	\$	\$
Balance, January 1, 2017	681,091	93,231	774,322
Accretion	86,909	-	86,909
Conversion of convertible debt	(768,000)	(93,231)	(861,231)
Issuance of convertible debt	8,920,786	2,079,214	11,000,000
Less issuance costs:			
Cash commissions	(624,455)	(145,545)	(770,000)
Cash costs	(63,980)	(14,911)	(78,891)
Finders' warrants	(199,825)	(46,575)	(246,400)
Accretion	46,000	-	46,000
Accretion of transaction costs	14,377	-	14,377
Deferred tax expense	-	(508,471)	(508,471)
Balance, December 31, 2017	8,092,903	1,363,712	9,456,615
Conversion of convertible debt	(4,505,594)	(995,661)	(5,501,255)
Interest and accretion	546,230	-	546,230
Accretion of transaction costs	264,071	-	264,071
Deferred tax recovery	-	191,715	191,715
<b>Balance, December 31, 2018</b>	<b>4,397,610</b>	<b>559,766</b>	<b>4,957,376</b>

**12. SHARE CAPITAL****(a) CAPITAL STOCK**

Authorized capital stock consists of an unlimited number of common shares, without par value.

On January 23, 2018, an investor exercised 6,667 warrants of the Company at \$0.90 per common share. The Company issued 6,667 common shares in the Company in exchange for \$5,999.

The holder of the December 2017 Convertible Debenture exercised their right of conversion on January 4, 2018, converting \$2,000,000 of the debt into 2,666,666 common shares of the Company. On January 22, 2018, a further \$1,500,000 of debt was converted into 2,000,000 common shares of the Company. On March 9, 2018, \$350,000 of debt was converted into 466,666 common shares on March 12, 2018, \$500,000 of debt was converted into 666,666 common shares and on March 12, 2018, \$500,000 of debt was converted into 666,666 common shares and on September 7, 2018 \$1,500,000 of debt was converted into 2,000,000 common shares. All conversions were at \$0.75 per share.

On February 13, 2018, the Company completed an underwritten bought deal that resulted in the issuance of 14,238,150 units at a price of \$1.05 per unit for total gross proceeds of \$14,950,058. The value of the unit is attributed as \$0.94 for the common share and \$0.11 to the warrant unit using the residual method. The Company incurred cash settled share issuance costs of \$1,441,821 for net proceeds of \$13,508,237. In addition to the cash settled share issuance costs, non-cash share issuance costs of \$657,802 were incurred as a result of the issuance of finders' units on the equity transaction. Share issue costs have been



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attributed to the common share and warrant on a weighted average basis. Each unit, as well as each finders' unit, is comprised of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of \$1.30 and expires on February 13, 2020.

On September 17, 2018, an investor exercised 45,000 warrants of the Company at \$0.75 per common share. The Company issued 45,000 common shares in the Company in exchange for \$33,750.

During the year ended December 31, 2017, the Company completed non-brokered private placements that resulted in the issuance of 9,848,000 common shares at a price of \$0.32 per share. As a result of the transaction, the Company recorded the proceeds of \$3,151,360 as an increase to share capital. A further 312,000 shares were issued in lieu of interest to the holder of the November 2016 convertible debenture at a price of \$0.32 per share. 840,000 shares were issued as payment in kind for Electrical and Marketing contractors as well as 400,000 shares were issued to an employee as part of their employment contract. These shares were also issued at a price of \$0.32 per share.

On August 28, 2017, the Company closed the first tranche of its equity offering in conjunction with the Reverse Takeover (the "Equity Offering"). As a result, the Company issued 7,674,609 subscription receipts at \$0.75 per subscription receipt for gross proceeds of \$5,755,957. Each subscription receipt is convertible into one common share of the Company. On September 13, 2017, the Equity Offering was amended to add, for each subscription receipt purchased, one-half of one common share purchase warrant of the Company issuable upon conversion of the subscription receipts. Each whole warrant entitles the Subscriber to purchase one common share of the Company for a period of 24 months following closing of the Reverse Takeover at an exercise price of \$0.90 per share.

On November 2, 2017, the Company closed the second tranche of the Equity Offering by issuing an additional 2,774,527 subscription receipt units at \$0.75 per subscription receipt unit for gross proceeds of \$2,080,895.

On December 13, 2017, Rainmaker closed the third and final tranche of the Equity Offering. As a result, Rainmaker issued an additional 5,623,949 subscription receipt units at \$0.75 per subscription receipt unit for gross proceeds of \$4,217,962. Total gross proceeds of the Equity Offering were \$12,054,814.

Upon closing of the Reverse Takeover on December 13, 2017, the Company issued 16,073,085 common shares and 8,036,563 common share purchase warrants in exchange for the 16,073,085 subscription receipt units and the proceeds of the Equity Offering were released from escrow. The fair value attributed to share capital for the common shares was \$10,367,140.

As part of the transaction, the Company paid the broker \$633,837 in cash commissions and 845,113 broker warrants at an exercise price of \$0.75 per common share and an expiry of two years as well as other share issuance costs of \$26,615. As part of the transaction, deferred tax asset of \$178,209 were recorded.

The holders of both the November 2016 Convertible Debenture converted their holdings prior to the closing of the Reverse Takeover on December 13, 2017. They converted a total of \$768,000 and received 2,400,000 shares at a price of \$0.32 per share.

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The holder of the June 2017 Convertible Debenture converted their holdings prior to the closing of the Reverse Takeover on December 13, 2017. They converted a total of \$2,100,000 and received 2,800,000 units at a price of \$0.75 per unit. Each unit provides the right to one common share of the Company and one-half of one common share purchase warrant of the Company. Each whole warrant entitles the Subscriber to purchase one common share of the Company for a period of 24 months following closing of the Reverse Takeover at an exercise price of \$0.90 per share.

Upon closing of the Reverse Takeover, predecessor shareholders of Rainmaker retained 1,333,328 common shares in the Company, after taking into account the 10.878 to 1 stock split.

#### **(b) WARRANTS, FINDERS' UNITS AND FINDERS' WARRANTS**

On February 13, 2018, the Company granted 14,238,150 warrants as part of the units sold through the underwritten bought deal. Each warrant is exercisable into one common share of the Company at a price of \$1.30 per share and expires on February 13, 2020. If the volume weighted average price of the common shares on the TSX Venture Exchange is equal to or greater than \$2.10 for any 10 consecutive trading days, the Company holds the right to accelerate the expiry of the warrants to 30 days following providing notice of their intention to do so.

As part of the bought deal, the Company also issued 996,670 finders' units. Each finders' unit is exercisable into one common share of the Company at a price of \$1.05 per share and one additional common share purchase warrant and expires on February 13, 2020. The additional warrant can be exercised into one common share of the Company at \$1.30 per share with an expiry date of February 13, 2020.

On June 15, 2017, Indiva Corporation issued 49 warrants (pre-stock split) valued at \$3,000 per warrant (pre-stock split) in conjunction with the closing of the June 2017 Convertible Debenture (Note 10). Upon closing of the Reverse Takeover, the warrants were exchanged for 196,000 warrants of the Company. Each warrant is exercisable into one common share of the Company for a period of two years at \$0.75 per share.

Upon closing of the Reverse Takeover, the predecessor company, Rainmaker Resources Ltd., had the following warrants, finders' units and finders' warrants outstanding which were adjusted for the Share Consolidation however all other terms remained the same:

- 173,451 warrants exercisable into one common share of the Company at a price of \$1.09 per share, expiring on October 28, 2020;
- 265,234 warrants exercisable into one common share of the Company at a price of \$0.87 per share, expiring on May 27, 2021;
- 85,799 warrants exercisable into one common share of the Company at a price of \$1.25 per share, expiring on September 27, 2021;
- 13,693 finders' units exercisable into one common shares of the Company at a price of \$1.09 per share and an additional warrant, expiring on October 20, 2020. The additional warrant can be exercised into one common share of the Company at \$1.09 per share with an expiry date of October 28, 2020;

**Indiva Limited (formerly Rainmaker Resources Ltd.)****Notes to the Consolidated Financial Statements**

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- 19,326 finders' units exercisable into one common shares of the Company at a price of \$0.76 per share and an additional warrant, expiring on May 27, 2021. The additional warrant can be exercised into one common share of the Company at \$0.87 per share with an expiry date of May 27, 2021;
- 12,810 finders' units exercisable into one common shares of the Company at a price of \$0.98 per share and an additional warrant, expiring on September 22, 2021. The additional warrant can be exercised into one common share of the Company at \$1.25 per share with an expiry date of September 27, 2021; and
- 29,942 finders' warrants exercisable into one common share of the Company at a price of \$0.54 per share, expiring on April 27, 2022.

On December 13, 2017, upon conversion of the June 2017 Convertible Debenture, the Company granted the holder of the debenture 1,400,000 warrants in the Company exercisable into one common share of the Company at a price of \$0.90 per share and expiring on December 13, 2019.

On December 13, 2017, the Company also granted an additional 8,036,563 warrants to the subscribers of the Equity Offering. Each common share purchase warrant is exercisable into one common share of the Company at a price of \$0.90 per share and expires on December 13, 2019.

As part of the commissions on the Equity Offering, the broker received 845,113 finders' warrants. Each finders' warrant is exercisable into one common share of the Company at a price of \$0.75 per share and expires on December 13, 2019.

On December 13, 2017, the Company granted 1,024,000 finders' warrants as commissions to the broker of the December 2017 Convertible Debenture. Each finders' warrant is exercisable into one common share of the Company at a price of \$0.75 per share and expires on December 13, 2019.

	<b>Warrants outstanding #</b>	<b>Weighted average exercise price \$</b>
Outstanding, January 1, 2017	-	-
Granted	12,101,931	0.88
Exercised	-	-
Expired/cancelled	-	-
Outstanding, December 31, 2017	12,101,931	0.88
Granted	15,234,820	1.28
Exercised	(51,667)	0.77
Expired/cancelled	-	-
<b>Outstanding, December 31, 2018</b>	<b>27,285,084</b>	<b>1.10</b>

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The following warrants remain outstanding as at December 31, 2018:

<b>Warrant Description</b>	<b># of Warrants</b>	<b>Expiry Date</b>	<b>Exercise Price</b>
	<b>#</b>		<b>\$</b>
Warrants on June 2017 derivative financial instrument	196,000	06/14/2019	0.75
Warrants on conversion of June 2017 derivative financial Instrument	1,400,000	12/13/2019	0.90
Warrants issued on December equity transaction	8,029,896	12/13/2019	0.90
Finders warrants issued on December equity transaction	845,113	12/13/2019	0.75
Finders warrants on December 2017 convertible Debenture	979,000	12/13/2019	0.75
Warrants on February 2018 equity transaction	14,238,150	02/13/2020	1.30
Finders' units on February 2018 equity transaction	996,670	02/13/2020	1.05
Rainmaker predecessor warrants	173,451	10/28/2020	1.09
Rainmaker predecessor finders' units	13,693	10/28/2020	1.09
Rainmaker predecessor warrants	265,234	05/27/2021	0.87
Rainmaker predecessor finders' units	19,326	05/27/2021	0.76
Rainmaker predecessor warrants	85,799	09/27/2021	1.25
Rainmaker predecessor finders' units	12,810	09/27/2021	0.98
Rainmaker predecessor finders' warrants	29,942	04/27/2022	0.54
<b>Total warrants &amp; weighted average exercise price</b>	<b>27,285,084</b>		<b>1.10</b>

As at December 31, 2018, the warrants outstanding have a weighted average remaining life of 1.07 years.

The warrants were valued using the Black-Scholes option pricing model using the following range of assumptions. The Company has determined that its own historical volatility is not relevant to the current business activity. The Company has estimated volatility for the warrants issued in the current year by using the historical volatility of other companies that the Company considers comparable to its current business activities:

	<b>2018</b>	<b>2017</b>
Share price	\$0.94 - \$1.29	\$0.32 - \$0.645
Expected dividend yield	-	-
Volatility	83.79%	76.04% - 85.77%
Expected life	2.00 years	2.00 - 4.37 years
Forfeiture rate	-	-
Risk-free rate	1.74%	1.05%-1.77%

**(c) SHARE-BASED COMPENSATION**

The equity compensation plans which the Company has in place relate to grants issued to officers, directors, employees and consultants and was approved by the Board of Directors during 2017.

As at December 31, 2018, based on the Company's total common shares outstanding, a total of 8,303,623 (6,094,641 – as at December 31, 2017) stock options may be issued and outstanding. Based on this the Company could grant up to 3,925,308 (2,381,326 – as at December 31, 2017) additional stock options

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beyond what was issued and outstanding as at December 31, 2018. TSXV approval is required to reserve the related common shares for issuance. Unless otherwise determined by the Board, options issued under the Plan vest over a three-year period except for options granted to consultants or persons employed in Investor Relations Activities (as defined in the policies of the Exchange) which vest immediately.

During the year ended December 31, 2018, the Company recognized \$909,714 (\$236,204 – year ended December 31, 2017) of stock-based compensation related to stock options.

On November 9, 2018, the Company granted 495,000 stock options, exercisable for common shares at a weighted average price of \$0.80 per share, vesting over three years, with the exception of 200,000 options which vest immediately. The options expire five years from the date of grant.

On May 31, 2018, the Company granted 350,000 stock options, exercisable for common shares at a weighted average price of \$0.80 per share, vesting over three years. The options expire five years from the date of grant.

On February 22, 2018, the Company granted 640,000 stock options, exercisable for common shares at a weighted average price of \$0.87 per share, vesting over three years, with the exception of 200,000 options which vest immediately. The options expire five years from the date of grant.

Stock option activity for the equity compensation plan for the period ended December 31, 2018 was as follows:

	<b>Number of Options #</b>	<b>Weighted average exercise price \$</b>
Outstanding, January 1, 2017	-	-
Granted	3,713,315	0.76
Exercised	-	-
Forfeited	-	-
<hr/>		
Outstanding, December 31, 2017	3,713,315	0.76
Granted	1,485,000	0.83
Exercised	-	-
Forfeited	(920,000)	0.78
<b>Outstanding, December 31, 2018</b>	<b>4,278,315</b>	<b>0.78</b>

The grant date fair value is calculated using the Black-Scholes pricing model. Expected volatility is the historical volatility of other companies the the Company considers comparable to its current business activities. The outstanding options as at December 31, 2018 have a weighted average remaining contractual life of 3.97 years (4.84 years - as at December 31, 2017).

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	<b>2018</b>	<b>2017</b>
Share price	\$0.59 - \$0.83	\$0.645
Expected dividend yield	Nil	Nil
Volatility	80.74% to 96.27%	64.63% to 84.39%
Expected life (years)	5	2 to 5
Forfeiture rate	Nil	Nil
Risk-free rate	1.74% - 2.31%	1.57% to 1.64%

The following table presents information related to stock options at December 31, 2018:

<b>Weighted average exercise price</b>	<b>Number of Options</b>	<b>Vested</b>	<b>Weighted average remaining life (years)</b>
\$0.75	2,910,000	1,170,005	3.87
\$0.76	105,811	105,811	0.95
\$0.80	845,000	200,000	4.68
\$0.87	390,000	100,000	4.15
\$1.47	27,504	27,504	0.95
	<b>4,278,315</b>	<b>1,603,320</b>	<b>3.96</b>

**13. INVESTMENT IN JOINT VENTURE**

On April 18, 2018, the Company entered into a definitive joint venture agreement with Bhang Corporation (the "Partner"), an intellectual property company (the "Bhang JV"). Bhang JV is 50% owned by the Company and 50% owned by the Partner, the Company has invested \$50 for its equity investment in the Bhang JV. As part of the transaction, the Company agreed to loan US\$1,000,000 (CAD\$1,364,150) to Bhang JV which was used to prepay for consulting services, packaging and royalties. The Company will be the manager of the joint venture and has committed to investing US\$5,000,000 in building cannabis processing infrastructure to be made available to Bhang JV. The joint venture grants the Company exclusive rights to manufacture and sell Bhang branded products in Canada and the right to export those products internationally.

The Bhang JV has not commenced operations as at December 31, 2018. The assets of the JV are held entirely in prepayments as at December 31, 2018.

Acquisition related costs of \$Nil were recognized as an expense in the year ended December 31, 2018.

**14. ROYALTY INVESTMENT**

On June 11, 2018, the Company prepaid US\$1,500,000 (CAD\$1,948,950) to DeepCell Industries for future royalty fees for sales of DeepCell branded products. These products are edible cannabis derivatives which are not expected to be able to be sold in Canada until October 2019 at the earliest. This agreement has a term of five years. The royalty investment will be expensed on a per unit basis as the company produces and sells DeepCell trademarked product.

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**15. LOSS PER SHARE**

For the period ended December 31, 2018, 4,278,315 stock options, 27,285,084 warrants and 6,866,667 convertible debenture shares (3,713,315 stock options, 12,101,931 warrants and 14,664,000 convertible debenture shares, respectively as at December 31, 2017) which could have been dilutive were excluded from the computation of diluted loss per share as the Company realized a net loss and it would be anti-dilutive to include them.

**16. INCOME TAXES**

The reconciliation of total income tax expense for the year ended December 31, 2018 and 2017 was as follows:

	<b>2018</b>	2017
	\$	\$
<b>Loss before income taxes</b>	<b>(8,656,094)</b>	(4,600,159)
Income tax recovery based on the Canadian corporate income tax rate of 26.5% (2017 – 26.5%)	<b>(2,293,865)</b>	(1,219,042)
Adjustment for small business tax rate 11.5% (2017 – 11.5%)	-	-
	<b>(2,293,865)</b>	(1,219,042)
Effect of expenses that are not deductible for tax purposes	<b>(241,074)</b>	43
Change in deductible temporary differences (2017 – Unrecognized)	-	62,594
Change in share issuance costs (2017 – Unrecognized)	-	282,512
Change in deferred tax assets not recognized (2017 – Unrecognized)	<b>2,405,476</b>	825,934
<b>Total income tax recovery</b>	<b>129,463</b>	47,959

The following deferred tax assets have not been recognized as it is not considered probable that sufficient future taxable profit will be generated to allow these assets to be recovered as at the following dates:

	<b>December 31, 2018</b>	December 31, 2017
	\$	\$
Canadian non-capital loss carry-forwards	<b>12,646,216</b>	4,726,533
Unamortized share issuance costs deductible for tax purposes	<b>2,667,968</b>	138,202
Deductible temporary differences	-	43,839
	<b>15,314,184</b>	4,908,574

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If not utilized, these Canadian non-capital loss carry-forwards expire between 2035 and 2038. The unamortized share issuance costs as at December 31, 2017 will be deductible for Canadian income tax purposes between 2018 and 2023.

	<b>December 31, 2017</b>	<b>Recognized in profit and loss</b>	<b>Recognized in equity</b>	<b>December 31, 2018</b>
<b>Deferred tax asset</b>	\$	\$	\$	\$
Loss carry forwards	150,340	29,418	-	179,758
Financing fees	248,826	(84,946)	(38,875)	125,005
	399,166	(55,528)	(38,875)	304,763
<b>Deferred tax liability</b>				
Fixed assets	(142,667)	(29,418)	-	(172,085)
Debentures	(538,802)	214,409	191,715	(132,678)
	(681,469)	184,991	191,715	(304,763)
<b>Net deferred tax liability</b>	<b>(282,303)</b>	<b>129,463</b>	<b>152,840</b>	<b>-</b>

The Company's unrecognized non-capital tax losses have the following expiry dates:

2035	195,836
2036	1,198,043
2037	3,054,364
2038	8,308,984
<b>Total</b>	<b>12,757,227</b>



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**17. SUPPLEMENTAL CASH FLOWS**

Supplemental details of the changes in non-cash working capital for the periods ended December 31 were as follows:

	<b>2018</b>	2017
	\$	\$
Changes in non-cash working capital impacting cash flows from operating activities were as follows:		
Taxes receivables	<b>(402,778)</b>	240,302
Employee advance	-	50,000
Inventory	<b>(970,426)</b>	-
Investment	<b>89,164</b>	(89,164)
Prepaid expenses	<b>(449,993)</b>	(295,607)
Long term prepaid	<b>(1,931,110)</b>	-
Accounts payable and accrued liabilities	<b>761,030</b>	215,368
Deferred tax liability	<b>(282,303)</b>	-
Subscription advances	-	(125,440)
	<b>(3,186,416)</b>	(4,541)
Changes in non-cash working capital impacting cash flows from investing activities were as follows:		
Prepaid expenses and other	<b>(690,268)</b>	-
Accounts payable and accrued liabilities	<b>943,406</b>	(658,336)
	<b>253,138</b>	(658,336)
Changes in non-cash working capital impacting cash flows from financing activities were as follows:		
Taxes receivable, related to share issuance costs	-	8,704
Accounts payable and accrued liabilities, related to share issuance costs	<b>(4,500)</b>	125,035
Accounts payable and accrued liabilities, related to interest payable	-	(7,680)
	<b>(4,500)</b>	126,059

**18. SEGMENTED INFORMATION**

The Company operates in one segment being the licensed production of cannabis. All property, plant and equipment, assets in process and intangible assets are located in Canada.

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#### **19. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash and cash equivalents, loan to joint venture, accounts payable and accrued liabilities and a convertible debenture. The fair value of cash and cash equivalents and accounts payable and accrued liabilities are equivalent to their carrying values given their short maturity period. The fair value of the loan to joint venture approximates its carrying value. The fair value of the convertible debenture is calculated using the effective interest method.

##### **(a) Foreign currency risk**

As at December 31, 2018, the Company held cash denominated in U.S. dollars of US\$17,594 (US\$1,284 – as at December 31, 2017). The Company has limited currency risk as it transacts mainly in Canadian dollars.

##### **(b) Liquidity risk**

The Company's approach to managing liquidity is to maintain sufficient liquidity to meet its liabilities when they become due. The Company's accounts payable and accrued liabilities are due within one year of the end of the reporting periods. The December 2017 Convertible Debenture is not due for 0.95 years. As at December 31, 2018, the Company had sufficient resources to meet its outstanding obligations.

##### **(c) Credit risk**

The Company's cash and cash equivalents are exposed to credit risk, which is the risk that the counterparties to a financial instrument fail to meet its contractual obligations to the Company. The amount of credit risk related to cash is considered insignificant as the Company's funds are held with a Schedule I bank, or in a joint venture managed by the Company. The Company is not aware of any collection issue with the loan to the joint venture.

##### **(d) Interest rate risk**

The Company is not subject to interest rate risk on future cash flows, as all of its instruments bear fixed rates of interest.

#### **20. FAIR VALUE MEASUREMENTS**

As at December 31, 2018, the Company's cash and cash equivalents balance of \$19,565,606 (\$21,303,886 – as at December 31, 2017) and Investments \$Nil (\$89,164 – as at December 31, 2017) are the only assets recorded at fair value. Cash and cash equivalents are classified as a Level 1 financial instrument.

The Company did not record any liabilities at fair value as at December 31, 2018.

The Company did not transfer any assets or liabilities between levels on the fair value hierarchy and has not offset any of its financial assets against its financial liabilities.

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Fair value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. There was no movement between levels during the period. The hierarchy is summarized as follows:

*Level 1* – quoted prices (unadjusted) in active markets for identical assets and liabilities

*Level 2* – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

*Level 3* – inputs for assets and liabilities not based upon observable market data

	December 31, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	19,565,606	-	-	21,303,886	-	-
Investment	-	-	-	89,164	-	-
	19,565,606	-	-	21,393,050	-	-

**21. CAPITAL MANAGEMENT**

As at December 31, 2018, the Company's capital consisted of \$4,397,610 in convertible debentures and \$37,282,515 in common shares (\$8,092,903 and \$20,483,947- as at December 31, 2017, respectively).

The Company is not subject to any externally imposed capital requirements.

The Company's primary objectives in managing its capital are to maintain sufficient levels of capital to complete the construction of the medical marijuana production facility in London, Ontario and to initiate production and sales at the facility, as well as to cover general operating expenditures and sustain future development of the business. The Company achieves its objectives by allocating capital in accordance with Management's strategies and periodically raising capital from investors.

**22. COMMITMENTS**

The Company has contractual obligations for leases of production and office space under operating leases with terms between one and two years. The Company also has contractual obligations for contractors, consultants, IT services, facility services and equipment and construction costs with terms remaining of up to four years.

At period end, the Company had future commitments as follows:

	< 1 Year	1 to 5 Years	> 5 Years	Total
	\$	\$	\$	\$
Minimum lease payments	259,907	3,213	-	263,120
Other commitments	725,914	10,043	-	735,957
<b>Total</b>	<b>985,821</b>	<b>13,256</b>	<b>-</b>	<b>999,077</b>

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Subsequent to period end, the Company entered into commitments totalling \$8,404,980. These commitments are comprised of the purchase of the land and building the production facility is located on, cannabis extraction and derivative manufacturing equipment, and agreements related to consulting fees and facility costs, all with minimum commitment terms of less than three years.

#### **23. KEY MANAGEMENT COMPENSATION**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. As a group they control approximately 18.05% of the outstanding shares of the Company as at December 31, 2018 (25.20% - as at December 31, 2017).

Key management personnel compensation for the years ended December 31, was as follows:

	<b>2018</b>	2017
	\$	\$
Short-term key management personnel compensation	<b>795,375</b>	622,667
Share-based payments	<b>479,375</b>	170,335

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#### **24. RELATED PARTY TRANSACTIONS**

During the period ended December 31, 2018, the Company paid \$21,851 for legal services and \$10,170 in rent for office space to a law firm owned by an Executive of the Company (\$19,609 and \$Nil – period ended December 31, 2017)

The Company had no other transactions with related parties for the period ended December 31, 2018.

#### **25. SUBSEQUENT EVENTS**

On January 22, 2019 the Company completed a 9.9% equity investment in RetailGo Inc. in exchange for a \$730,000 5 year promissory note and an additional \$300,000 to be repaid separately, representing funds committed by the Company to date.

On February 8, 2019, the Company announced its first supply agreement with the Ontario Cannabis Store ("OCS"), consisting of two strains of pre-rolls. The Company has since shipped product to the OCS and is now sold in the online OCS store as well as in Ontario approved retail locations.

On February 20, 2019, the Company announced the completion of 3 additional flower rooms, awaiting licensing from Health Canada. It also announced the purchase of its licensed production facility at 1050 Hargrieve Road in London, Ontario for cash of \$5.55M.