INDIVA LIMITED

Annual Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Indiva Limited:

Opinion

We have audited the consolidated financial statements of Indiva Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of net 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, 2019 and December 31, 2018, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of $11,397,894 during the year ended December 31, 2019 and, as at that date, had an accumulated deficit of $25,814,185. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

MNP LLP

Ottawa, Ontario — Chartered Professional Accountants

May 15, 2020 — Licensed Public Accountants

MNP

Indiva Limited

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

(Expressed in Canadian dollars)

As at	*Note*	**December 31, 2019**	December 31, 2018
		$	$
ASSETS			
Current assets			
Cash and cash equivalents	**4**	**631,106**	19,565,606
Taxes receivable		**380,252**	592,753
Accounts receivable	**5, 24(c)**	**445,930**	5,870
Inventory	**6**	**8,343,843**	1,159,276
Biological assets	**7**	**453,867**	-
Prepaid expenses and other	**8**	**257,758**	746,943
Total current assets		**10,512,756**	22,070,448
Other non-current assets			
Property, plant and equipment	**9**	**18,773,075**	5,293,571
Assets in process	**10**	**3,694,404**	3,984,293
Building, equipment and construction deposits		**1,399,882**	838,222
Intangible assets	**11**	**9,030**	346,218
Investment in joint venture	**20**	**1,766,833**	1,364,200
Equity investment	**21**	**1**	-
Promissory note	**21**	**1**	-
Prepaid royalties	**19**	**1,948,950**	1,948,950
Total assets		**38,104,932**	35,845,902
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**9,556,707**	2,053,238
Excise tax payable		**62,461**	-
Other liabilities	**12**	**584,870**	-
Loan payable	**13**	**6,232,998**	-
Lease liability	**14**	**103,929**	-
Convertible debenture	**15**	**-**	4,397,610
Total current liabilities		**16,540,965**	6,450,848
Other non-current liabilities			
Lease liability	**14**	**814,398**	-
Convertible debentures	**15**	**1,457,958**	-
Total liabilities		**18,813,321**	6,450,848
Equity			
Share capital	**16**	**37,487,265**	37,282,515
Contributed surplus		**398,267**	-
Reserves	**16**	**7,239,801**	6,548,367
Accumulated other comprehensive loss		**(19,537)**	(19,537)
Accumulated deficit		**(25,814,185)**	(14,416,291)
Total equity		**19,291,611**	29,395,054
Total liabilities and equity		**38,104,932**	35,845,902

Commitments (Note 28), Subsequent Events (Note 32), and going concern (Note 2)

N. Marotta — Carmine (Niel) Marotta

J. Yersh — James Yersh

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

Indiva Limited
Consolidated Statements of Net Loss and Comprehensive Loss
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

	Note	**December 31, 2019**	December 31, 2018
		$	$
Gross revenue		**1,120,603**	58,307
Excise taxes		**(196,741)**	-
Net revenue		**923,862**	58,307
Write down of inventory to net realizable value	**6**	**(80,827)**	-
Cost of goods sold		**(921,039)**	(55,788)
Gross margin before fair value adjustments		**(78,004)**	2,519
Fair value adjustment on sale of inventory		**(243,261)**	-
Unrealized fair value adjustment on biological assets	**7**	**375,627**	98,931
Gross margin		**54,362**	101,450
Operating expenses			
General and administrative		**6,314,985**	5,085,002
Marketing and sales		**2,157,558**	1,325,790
Research and development		**122,590**	24,784
Share-based compensation	**16(c)**	**602,747**	909,714
Depreciation of property, plant and equipment	**9**	**602,562**	374,506
Amortization of intangible assets	**11**	**24,148**	32,582
Total operating expenses		**9,824,590**	7,752,378
Loss from operations		**(9,770,228)**	(7,650,928)
Other income (expenses)			
Realized foreign exchange loss		**(44,711)**	(11,014)
Unrealized exchange (loss) gain		**(65,400)**	62,373
Interest and financing expenses		**(234,397)**	(5,238)
Accretion and interest on convertible debentures	**15**	**(205,140)**	(1,158,979)
Transaction costs		**(182,023)**	-
Interest income		**137,332**	112,881
Expected credit loss	**21,24(c)**	**(326,726)**	-
Share of loss on investment in joint venture	**20**	**(392,665)**	-
Loss on disposal of property, plant and equipment		**(32,747)**	(5,189)
Impairment loss on intangible assets	**11**	**(281,189)**	-
Net loss before tax		**(11,397,894)**	(8,656,094)
Deferred tax recovery	**27**	**-**	129,463
Net loss		**(11,397,894)**	(8,526,631)
Loss on investment		**-**	(14,537)
Total comprehensive loss attributable to shareholders		**(11,397,894)**	(8,541,168)
Loss per share, basic and diluted	**18**	**(0.14)**	(0.11)
Weighted average number of outstanding shares, basic and diluted	**18**	**83,158,021**	79,551,118

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

Indiva Limited
Consolidated Statement of Changes in Equity
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

	Note	Share capital Shares	Amount	Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		#	$	$	$	$	$	$
Balance, January 1, 2019		83,036,228	37,282,515	-	6,548,367	(14,416,291)	(19,537)	29,395,054
Share-based compensation	**16(c)**	-	-	-	536,737	-	-	536,737
Share issued for services	**16(a)**	552,041	204,750	-	-	-	-	204,750
Repayment of December 2017 debentures	**15**	-	-	398,267	(559,765)	-	-	(161,498)
Equity portion of 2019 convertible debentures	**15**	-	-	-	648,453	-	-	648,453
Modification of warrants	**16(b)**	-	-	-	66,009	-	-	66,009
Net loss for the year		-	-		-	(11,397,894)	-	(11,397,894)
Balance, December 31, 2019		**83,588,269**	**37,487,265**	**398,267**	**7,239,801**	**(25,814,185)**	**(19,537)**	**19,291,611**

	Note	Share capital Shares	Amount	Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		#	$	$	$	$	$	$
Balance, January 1, 2018		60,946,413	20,483,947	-	4,230,800	(5,889,660)	(5,000)	18,820,087
Share capital issued	**16(a)**	14,238,150	14,950,058	-	-	-	-	14,950,058
Share issuance costs	**16(a)**	-	(1,441,821)	-	-	-	-	(1,441,821)
Issuance of warrants	**16(b)**	-	(1,566,197)	-	1,566,197	-	-	-
Issuance of finders warrants	**16(b)**	-	(657,802)	-	657,802	-	-	-
Partial conversion of December 2017 debenture	**15**	7,799,998	5,501,255	-	(995,661)	-	-	4,505,594
Exercise of warrants	**16(b)**	51,667	51,950	-	(12,200)	-	-	39,750
Stock-based compensation	**16(c)**	-	-	-	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)
Balance, December 31, 2018		**83,036,228**	**37,282,515**	**-**	**6,548,367**	**(14,416,291)**	**(19,537)**	**29,395,054**

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

Indiva Limited
Consolidated Statement of Cash Flow
For the years ended December 31, 2019 and 2018
(Expressed in Canadian dollars)

	Note	**2019**	2018
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the year		**(11,397,894)**	(8,526,631)
Adjustments to reconcile net loss to cash used in operating activities:			
Deferred income taxes			(282,303)
Unrealized fair value adjustment on biological assets		**(375,627)**	(98,931)
Realized fair value adjustment on sale of inventory		**243,261**	-
Depreciation and amortization	**9, 11**	**862,852**	407,088
Interest income		**(137,332)**	(112,882)
Change in value of investment		**-**	89,164
Accretion on convertible debentures	**15**	**618,672**	1,158,979
Amortization of transaction costs on demand loan	**13**	**81,723**	-
Loss on disposal of property, plant and equipment		**32,747**	5,189
Unrealized foreign exchange loss (gain)		**65,400**	(62,373)
Interest accretion on lease liabilities	**14**	**13,878**	-
Write off of inventory to net realizable value		**80,827**	-
Impairment loss on intangible assets	**11**	**281,189**	-
Write off leasehold improvements to rent expense on building purchase	**10**	**47,247**	-
Write off lease buyout to rent on building purchase	**11**	**41,226**	-
Expected credit loss		**326,726**	-
Share of loss from investment in joint venture	**20**	**392,665**	-
Deferred tax recovery		**-**	(129,463)
Stock-based compensation	**16(c)**	**807,497**	909,715
Non-cash consulting fees		**-**	98,480
Interest capitalized in purchase of assets in process	**10**	**(834,425)**	-
Changes in non-cash operating working capital	**22**	**(352,794)**	(2,993,277)
Total cash used in operating activities		**(9,202,162)**	(9,537,245)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in joint venture	**20**	**(887,424)**	(1,294,950)
Equity investment	**21**	**-**	(50)
Acquisition of assets in process	**10**	**(4,189,895)**	(3,374,630)
Acquisition of property, plant and equipment	**9**	**(7,306,540)**	(333,044)
Acquisition of intangible assets	**11**	**(9,375)**	(284,950)
Proceeds on disposal of investment		**-**	73,609
Advanced on promissory note	**21**	**(300,000)**	-
Proceeds on disposal of property, plant and equipment		**26,000**	1,000
Interest received		**137,332**	112,882
Total cash used in investing activities		**(12,529,902)**	(5,100,133)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from equity financing		**-**	14,950,058
Share issuance costs		**-**	(1,446,321)
Proceeds from loan payable, net of transaction costs	**13**	**6,151,275**	-
Net proceeds from issuance of convertible debenture	**15**	**2,092,200**	-
Repayment of convertible debentures	**15**	**(5,163,569)**	-
Payment of principal portion of lease liabilities	**14**	**(23,412)**	-
Proceeds from exercise of warrants		**-**	39,750
Proceeds from secured bridge loan	**13**	**243,632**	-
Repayment of secured bridge loan	**13**	**(100,576)**	-
Interest payments on convertible debentures	**15**	**(401,986)**	(644,389)
Total cash from financing activities		**2,797,564**	12,899,098
Decrease in cash		**(18,934,500)**	(1,738,280)
Cash and cash equivalents, beginning of year		**19,565,606**	21,303,886
Cash and cash equivalents, end of year	**5**	**631,106**	19,565,606

Supplemental cash flow information is provided in Note 21

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

1. CORPORATE INFORMATION

Indiva Limited (the "Company") 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. ("Rainmaker").

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 are listed on the TSX Venture Exchange (the "TSXV") under the symbol "NDVA" and the OTCQX under the symbol "NDVAF".

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"), in London, Ontario, focused on manufacturing derivative products and the cultivation of cannabis. The Company is expanding its production facility to include extraction as well. The Company received the sales amendment to its licence on August 10, 2018.

The address of the Company's corporate office is 333 Preston Street, Suite 710, Ottawa, Ontario, K1S 5N4.

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, 2019.

These Financial Statements were approved and authorized for issue by the Board of Directors on May 14, 2020.

(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 3.

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 has incurred losses in the current and prior periods, with a net loss of \$11,397,894 during the year ended December 31, 2019 (2018 - \$8,541,168), an accumulated deficit of \$25,814,185 at December 31, 2019 (2018 - \$14,416,291), and negative cash flow from operations during the year ended December 31, 2019, of \$9,202,162 (2018 - \$9,537,245). These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized valuesand to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements.

(Expressed in Canadian dollars)

The Company will need to raise additional financing in the form of debt and/or equity in order to fund continuing operations. Even if the Company has been successful in raising funds in the past, there is no assurance that it will manage to obtain financing in the future.

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. If the going concern assumption was not appropriate for these financial statements, then adjustments would likely be necessary in the carrying amounts of assets and liabilities, expenses, the accumulated deficit and the classification used in the consolidated statement of financial position. These adjustments could be material.

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

(i) 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, 2019 were as follows:

Name of subsidiary	**Place of incorporation**	**Ownership interest as at**		**Principal activity**
		December 31, 2019	December 31, 2018	
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 real estate for production facility

(ii) Joint Arrangements

The Company owns a 50% interest in 2639177 Ontario Inc. (the "Bhang JV"), a company incorporated in Ontario, under terms of a definitive joint venture agreement with the Bhang Corporation (the "Partner"). The Bhang JV holds rights for product licensing. The Company has assessed the nature of its arrangement and given the Company and its joint venture partner have rights to the net assets of the separate legal entity, the Company has concluded they will be account for the joint arrangement as a joint venture. Joint ventures are accounted for using the equity method and accordingly the initial investment at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the venture after the date of acquisition.

(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.

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 loss.

(c) REVENUE

The Company recognizes revenue in accordance with IFRS 15. IFRS 15 specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

i) identify the contract with a customer;

ii) identify the performance obligations in the contract;

iii) determine the transaction price;

iv) allocate the transaction price to the performance obligations in the contract; and

v) recognize revenue when (or as) the entity satisfies a performance obligation.

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, and collectability is reasonably assured.

Revenue includes excise taxes, which the Company pays, but excludes duties and taxes collected on behalf of third parties. Revenue also includes the net consideration to which the Company expects to be entitled. Revenue is recognized to the extent that it is highly probable that a significant reversal will not occur. Therefore, revenue is stated net of pricing discounts, allowances for customer returns and certain promotional activities and similar items. Generally, payment of the transaction price is due within credit terms that are consistent with industry practices, with no element of financing.

The Company includes in gross revenue amounts generated from processing service agreements. Under processing service agreements, the customers supply the raw material to the Company for processing into finished goods. Under the service arrangements, the finished products are made to the customer's specification and delivered to the customer or delegated third party. As such, revenue for processing service arrangements are recognized when the customer takes delivery of the finished products.

(d) 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 90 days or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

(e) FINANCIAL INSTRUMENTS

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at fair value through profit or loss ("FVTPL"); (ii) those to be measured subsequently at fair value through other comprehensive income ("FVOCI"); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Company reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities ae not reclassified.

The Company has made the following classifications:

Financial Instrument	Classification
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Loan to joint venture	Amortized cost
Equity investment	FVTPL
Promissory note	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Loan payable	Amortized cost

Financial assets at fair value through comprehensive income

Equity instruments that are not held-for-trading can be irrevocably designated to have their change in fair value recognized through comprehensive income instead of through profit or loss. This election can be made on individual instruments and is not required to be made for the entire class of instruments. Attributable transaction costs are included in the carrying value of the instruments. Financial assets at fair value through other comprehensive income are initially measured at fair value and changes therein are recognized in other comprehensive income.

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the accounting periods. All other financial assets including equity investments are measured at their fair values at the end of accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

Impairment

The Company assesses all information available, including on a forward-looking basis the expected credit loss associated with its assets carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward-looking information. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that the counterparty debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Expected credit losses are measured as the difference in the present value of the contractual cash flows that are due to the Company under the contract, and the cash flows that the Company expects to receive. The Company assesses all information available, including past due status, credit history, and forward-looking macro-economic factors in the measurement of the expected credit losses associated with its assets carried at amortized cost.

The Company measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

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 of 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 amortized 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 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.

(f) PROPERTY, PLANT AND EQUIPMENT ("PPE")

Upon initial acquisition, PPE is valued at cost, being the purchase price, capitalized borrowing costs, 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 depreciated 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:

Building and building improvements	40 years
Facility equipment	3 to 20 years
Office equipment and furniture	3 years
Promotional Vehicle	8 years
Leasehold Improvements	Remaining Lease Term

Borrowing costs

Borrowing costs attributable to the acquisition or construction of qualifying assets that take a substantial period of time to make ready for their intended use are added to the cost of the assets, until such time as the assets are substantially complete and ready for their intended use. The amount of borrowing costs capitalized cannot exceed the actual amount of borrowing costs incurred in a period. All other borrowing costs are expensed in the period in which they are incurred.

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 loss.

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 (expenses).

(g) LEASES

Effective January 1, 2019, the Company adopted IFRS 16, Leases. Under IFRS 16, the Company recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentive received.

The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The estimated useful lives of ROU assets are determined on the same basis as those of property and equipment. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

i. fixed payments, including in-substance fixed payments
ii. variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date
iii. amounts expected to be payable under a residual value guarantee; and
iv. the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortized cost using the interest rate implicit in the lease. It is remeasured when there is a change in future lease payments arising from a change in the index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

The Company presents ROU assets within property, plant and equipment and lease liabilities separately in the consolidated statement of financial position.

The Company has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

(h) 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

(i) IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses 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 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.

(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 loss except to the extent that they relate to items recognized directly in equity or other comprehensive loss.

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) LOSS PER SHARE

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 net 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 16. 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 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 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 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) INVENTORY

The Company defines inventory as all cannabis products after the point of harvest ("Cannabis Inventory"), purchased finished goods for resale, consumable supplies and accessories. Cannabis Inventory includes dried cannabis, cannabis extracts and harvested cannabis trim.

Cannabis Inventory is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to Cannabis Inventory to the extent that the cost is less than net realizable value ("NRV"). NRV for work-in-process ("WIP") and finished Cannabis Inventory is determined by deducting estimated remaining conversion/completion costs and selling costs from the estimated sale price achievable in the ordinary course of business. Conversion and selling costs are determined using average cost. In the period that Cannabis Inventory is sold, the fair value portion of the deemed cost is recorded within changes in fair value of inventory sold line, and the cash cost of such Cannabis Inventory, including direct and indirect costs, are recorded within the cost of sales line on the statement of loss and comprehensive loss.

Products for resale, consumable supplies and accessories are initially recognized at cost and subsequently valued at the lower of cost and NRV. The Company reviews these types of inventory for obsolescence, redundancy and slow turnover to ensure that they are written-down and reflected at NRV.

The Company uses judgment in determining the NRV of inventory. When assessing NRV, the Company considers the impact of price fluctuation, inventory spoilage and inventory damage.

(q) INTERESTS IN EQUITY-ACCOUNTED INVESTEES AND JOINT VENTURES

The Company's interest in equity accounted investees is comprised of its interest in a joint venture (Note 20).

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.

An interest in a joint venture is accounted for using the equity method in accordance with IAS 28. It is 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.

If the Company’s share of losses of a joint venture equals or exceeds its interest in the joint venture, the Company discontinues recognising its share of further losses. The interest in a joint venture is the carrying amount of the investment in the joint venture together with any long-term interests that, in substance, form part of the Company’s net investment in the joint venture. Such items include long-term receivables and loans. Losses recognised using the equity method in excess of the entity's investment in shares are applied to the other components of the Company's interest in the joint venture in the reverse order of their liquidity.

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, the production, processing, and sale of cannabis and cannabis related products. At December 31, 2019, the Company had operations in one geographic area, Canada.

(s) NEW STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 16, Leases was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with the option to forego the requirements in cases of short-term leases and those with low underlying asset value. The Company evaluated its leases using the modified retrospective approach. Prior periods have not been restated.

In applying the modified retrospective approach, the Company has taken advantage of the following practical expedients:

a) Leases with a remaining term of twelve months or less from the date of application have been accounted for as short-term leases even though the initial term from lease commencement have been more than twelve months.

b) The Company has maintained the lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered or changed after January 1, 2019.

c) The Company recognized a right-of-use asset on the date of the application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

(Expressed in Canadian dollars)

The aggregate lease liability recognised in the statement of financial position at January 1, 2019, can be reconciled as follows:

	$
Operating lease commitment as at December 31, 2018	263,120
Short term operating leases	(221,349)
Variable lease payments	(21,371)
Adjustment to fair value of undiscounted lease payments	779
Lease liability at January 1, 2019	19,621

The weighted-average incremental borrowing rate used to measure lease liabilities at the date of initial application was 10.50%. A corresponding right-of-use asset of $25,742 has been recognized in the statement of financial position as at January 1, 2019.

During the year ended December 31, 2019, the Company recorded amortization on right of use assets in the amount of $49,769.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

After considering the above practical expedients, the Company had one long-term lease for office space in London, Ontario. All other leases have had the practical expedient for short-term leases applied.

(t) STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new and amendments to accounting standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted. The Company has not early adopted the new or amended standards in preparing these Financial Statements. The following new and amended standards are not expected to have a significant impact on the Company's Financial Statements.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IAS 1 Presentation of Financial Statements

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS standards and other publications.

(u) 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 debentures as financial liabilities and equity

Management has determined that based on the terms of the convertible debentures, 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.

Impairment of non-current assets

Non-current assets are tested for impairment at the end of each reporting period if, in management's judgment, there is an indicator of impairment. If there are indicators, management performs an impairment test on the major assets in this category. In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses an interest rate to discount them.

Expected credit loss

In calculating the expected credit loss on financial instruments, management is required to make a number of judgments including the probability of possible outcomes with regards to credit loss, the discount rate to use for time value of money and whether the financial instrument's credit risk has increased significantly since initial recognition.

Deferred income taxes

Judgment is required in order to determine whether to recognize deferred tax assets and/or liabilities on the statement of financial position. Management must assess the extent to which it is probable that the Company and its subsidiaries will have future taxable profits available against which it can recognize unused tax losses and/or tax credits as well as sufficient loss carry forwards to offset potential tax liabilities. The amount and availability of deferred tax assets and liabilities are directly influenced by future changes to tax laws in Canada.

Contingencies

Management uses judgment to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgment to assess the likelihood of the occurrence of one or more future events. When contingencies exist, Management estimates the related financial impact to the Company based on the possible outcomes of one or more future events.

Estimates

Incremental borrowing rate

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

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. The Company uses judgment in determining the NRV of inventory. When assessing NRV, the Company considers the impact of price fluctuation, inventory spoilage and inventory damage.

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.

Variable consideration in revenue from contracts with customers

The determination of the amount of variable consideration to recognize is dependent on management's estimate of the most likely amount to which the Company will be entitled and the probability of a significant reversal in that amount. These determinations require management to make estimates based on historical amounts received to estimate future returns and pricing adjustments.

(Expressed in Canadian dollars)

4. CASH AND CASH EQUIVALENTS

	Interest rate	December 31, 2019	December 31, 2018
		$	$
Cash	-	**631,106**	3,952,393
Cashable GICs	2.1 - 2.4%	**-**	15,613,213
Total cash and cash equivalents		**631,106**	19,565,606

5. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2019, and 2018, consisted of the following:

	December 31, 2019	December 31, 2018
	$	$
Trade receivables	**261,583**	4,815
Trade receivables subject to factoring arrangement	**182,332**	-
Other receivables	**2,015**	1,055
Total accounts receivable	**445,930**	5,870

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement (Note 13). Under this arrangement, the Company has transferred the relevant receivables to the lender in exchange for cash and is prevented from selling or pledging the receivables, however it retains late payment and credit risk. The Company therefore continues to recognise the transferred assets in their entirety in its balance sheet. The amount repayable under the factoring agreement is included in accounts payable and accrued liabilities on the consolidated statement of financial position. The Company considers the held to collect business model to remain appropriate for these receivables and accordingly continues measuring them at amortized cost.

The Company has not recognized any expected credit loss related to accounts receivable for the period ended December 31, 2019 (2018 - $nil). Due to the short-term nature of trade receivables, the carrying value is considered to be the same as the fair value.

(Expressed in Canadian dollars)

6. INVENTORY

Inventory as at December 31, 2019, and December 31, 2018, consisted of the following:

	December 31, 2019			December 31, 2018
	Capitalized cost	**Biological assets fair value adjustments**	**Total**	Total
	$	**$**	**$**	$
Dried cannabis				
Finished goods	**105,939**	**11,093**	**117,032**	9,468
Work-in-process	**189,744**	**65,280**	**255,474**	998,733
Cannabis extracts				
Finished goods	**1,126,186**	**-**	**1,126,186**	-
Work-in-process	**6,122,626**	**-**	**6,122,626**	-
Harvested cannabis trim	**98,923**	**-**	**98,923**	-
Packaging, supplies and other inventory	**2,252,742**	**-**	**2,252,742**	151,075
Total inventory	**8,267,020**	**76,823**	**8,343,843**	1,159,276

Inventory expensed to cost of sales during the year ended December 31, 2019 was $877,256 (2018 – $nil). In the year ended December 31, 2019, the Company recorded inventory write-offs totalling $80,827, where inventory carrying costs exceeded the net realizable value (2018 - $nil).

7. BIOLOGICAL ASSETS

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

	December 31, 2019	December 31, 2018
	$	$
Carrying amount, beginning of period	**-**	-
Production costs capitalized	**536,901**	78,360
Net increase in fair value due to biological transformation less cost to sell	**375,627**	98,931
Plants sold prior to harvest	**(4,308)**	(25,000)
Transferred to inventory upon harvest	**(454,353)**	(152,291)
Carrying amount, end of period	**453,867**	**-**

As at December 31, 2019, the fair value of biological assets included $453,867 in cannabis plants (2018 - $nil). The significant estimates used in determining the fair value of cannabis plants are as follows:

- Yield by plant;
- Stage of growth estimated as the amount of time in growth stage compared to previous timelines for the same or comparable strains;
- Percentage of costs incurred for each stage of plant growth;

(Expressed in Canadian dollars)

- Post-harvest costs calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of direct and indirect materials and labour related to processing, labelling, packaging and shipping;
- Wastage – represents the weighted average percentage of plants which are expected to fail to mature into cannabis plants that can be harvested; and
- Fair value selling price per gram less cost to complete and cost to sell.

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 cost to sell. For in-process biological assets, the fair value at the point of harvest is adjusted based on the stage of growth at period end. Stage of growth is determined by reference to the time the asset has spent in the grow cycle compared to the estimated time of the full life cycle to the point of harvest and is used to arrive at an in-process fair value for estimated biological assets, which have not yet been harvested.

Management's identified significant unobservable inputs, their range of values and sensitivity analysis of the impact that a 5% increase or decrease in each input would have on the fair value of biological assets are presented in the table below:

Unobservable inputs	December 31, 2019, input values	December 31, 2018, input values	5% increase in significant input as at December 31, 2019	5% decrease in significant input as at December 31, 2019
Average selling price Obtained through actual purchase and sale prices observed in the marketplace	\$4.65 - \$5.41 per gram	\$6.73 per gram	\$29,000 increase	\$29,000 decrease
Yield per plant Obtained through historical harvest cycle results on a per strain basis or where practicable actual harvest results used	23-34 grams per plant	92 grams per plant	\$23,000 increase	\$23,000 decrease
Stage of growth Obtained through the estimates of stage of completion within the harvest cycle from historical harvest timelines	Average of 59% complete	100% complete	\$25,000 increase	\$22,000 decrease
Post harvest costs include drying and curing, testing, post-harvest overhead	\$1.14 per gram	\$3.08 per gram	\$7,000 decrease	\$7,000 increase

(Expressed in Canadian dollars)

allocation, packaging and labelling costs				
Wastage Represents the average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested	7%–9% dependent upon the strain	41% - 61% dependent upon the strain	$2,000 decrease	$2,000 increase

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2019	December 31, 2018
	$	$
Rent, security and utility deposits	**38,293**	605,564
Other prepayments	**219,465**	141,379
Total prepaid expenses and deposits	**257,758**	746,943

(Expressed in Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land $	Building and building improvements $	Leasehold improvements $	Facility equipment $	Vehicle $	Office equipment & furniture $	Right of use assets $	Total $
Cost								
Balance, January 1, 2018	-	-	4,324,229	924,191	71,308	102,024	-	5,421,752
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)
Balance, December 31, 2018	-	-	4,357,289	1,164,398	74,702	236,783	-	5,833,172
Adoption of IFRS 16	-	-	-	-	-	-	25,742	25,742
Additions	252,275	6,332,873	51,100	1,218,762	2,213	115,418	954,212	8,926,853
Disposal on building purchase	-	(2,390)	-	(54,212)	(2,250)	(6,647)	-	(65,499)
Transferred from assets in process	-	3,795,834	-	1,532,729	-	102,549	-	5,431,112
Transfer between building improvements and leaseholds	-	4,408,389	(4,408,389)	-	-	-	-	-
Balance, December 31, 2019	**252,275**	**14,534,706**	**-**	**3,861,677**	**74,665**	**448,103**	**979,954**	**20,151,380**
Accumulated depreciation								
Balance, January 1, 2018	-	-	71,651	74,852	984	18,142	-	165,629
Depreciation for the year	-	-	146,374	156,726	9,453	61,952	-	374,505
Disposals	-	-	-	(533)	-	-	-	(533)
Balance, December 31, 2018	-	-	218,025	231,045	10,437	80,094	-	539,601
Depreciation for the year	-	334,132	25,034	331,124	9,179	89,466	49,769	838,704
Transfer between building improvements and leaseholds	-	243,059	(243,059)	-	-	-	-	-
Balance, December 31, 2019	**-**	**577,191**	**-**	**562,169**	**19,616**	**169,560**	**49,769**	**1,378,305**
Carrying amounts as at:								
December 31, 2018	-	-	4,139,264	933,353	64,265	156,689	-	5,293,571
December 31, 2019	**252,275**	**13,957,515**	**-**	**3,299,508**	**55,049**	**278,543**	**930,185**	**18,773,075**

(Expressed in Canadian dollars)

The Company acquired the building and land related to the Indiva facility on February 19, 2019, for a purchase price of $5,550,000 plus expenses of $107,475 for land transfer tax and $48,023 related to title insurance and legal fees. At the closing date, the previous lease for the building was terminated and the Company took full title to the facility and associated land.

$666,101, of the cost of the Company's additions for the year ending December 31, 2019, were included in accounts payable and accrued liabilities.

Total depreciation expense for the year ended December 31, 2019 was $838,704 (2018 - $374,505), of which $236,142 (2018 - $nil) has been capitalized in the production of biological assets and inventory.

Upon adoption of IFRS 16, on January 1, 2019, the Company recognized $25,742 for right-of-use assets related to leased office space, as well as a corresponding $19,622 of lease liabilities and a reduction of prepaid rent of $6,120. All other leases had terms of less than one year at the time of transition to IFRS 16 and have been treated as operating leases using the practical expedient allowed for short term leases.

During the year ended December 31, 2019, the Company recognized $215,131 in variable lease payments included in general and administrative expenses on the consolidated statements of net loss and comprehensive loss.

The Company has right of use assets as follows:

	Office space	**Equipment**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	25,742	-	25,742
Additions	944,223	9,989	954,212
Depreciation expense	(49,603)	(166)	(49,769)
Balance, December 31, 2019	**920,362**	**9,823**	**930,185**

The Company recognized right of use assets on January 1, 2019 upon the implementation of IFRS 16. Accordingly, there were no right of use assets recognized as at December 31, 2018.

(Expressed in Canadian dollars)

10. ASSETS IN PROCESS

	Building & building improvements	Leasehold improvements	Facility equipment	Office equipment & furniture	Intangible assets	Total
	$	$	$	$	$	$
Cost						
Balance, January 1, 2018	-	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)
Balance, December 31, 2018	-	3,875,806	5,938	102,549	-	3,984,293
Additions	2,111,776	962,906	1,256,362	16,250	-	4,347,294
Capitalized interest and accretion	834,425	-	-	-	-	834,425
Disposals	-	(40,496)	-	-		(40,496)
Transfer between categories	2,414,898	(3,429,670)	1,014,772	-	-	-
Transferred to PPE	(2,427,288)	(1,368,546)	(1,532,729)	(102,549)	-	(5,431,112)
Balance, December 31, 2019	**2,933,811**	**-**	**744,343**	**16,250**	**-**	**3,694,404**

During the year ended December 31, 2019, there were additions of $4,347,294 (2018 - $3,923,473) to assets in process largely related to leasehold improvements undertaken at the London facility to prepare the facility for increased production. Upon purchasing the building these and other leasehold improvements have been transferred to building improvements. Assets totalling $5,431,112 were transferred out of assets in process during the year (2018 - $20,663).

$157,399, of the cost of the Company's additions for the year ending December 31, 2019, were included in accounts payable and accrued liabilities.

Interest and accretion of the discount on convertible debt and accretion of transaction costs totalling $834,425 were capitalized to building improvements during the year ended December 31, 2019 (2018 - $295,710) (Note 15).

11. INTANGIBLE ASSETS

	Lease buyout	Genetics	Book rights	Total
	$	$	$	$
Cost				
Balance, January 1, 2018	100,000	15,000	24,000	139,000
Transferred from assets in process	-	-	21,000	21,000
Additions	15,000	196,575	52,375	263,950
Balance, December 31, 2018	115,000	211,575	97,375	423,950
Additions	-	9,375	-	9,375
Disposal on building purchase	(115,000)	-	-	(115,000)
Impairment loss	-	(211,575)	(97,375)	(308,950)
Balance, December 31, 2019	**-**	**9,375**	**-**	**9,375**

(Expressed in Canadian dollars)

Accumulated amortization				
Balance, January 1, 2018	46,667	-	-	46,667
Amortization for the year	23,621	2,575	4,869	31,065
Balance, December 31, 2018	70,288	2,575	4,869	77,732
Amortization for the year	3,486	10,924	9,738	24,148
Disposal on building purchase	(73,774)	-	-	(73,774)
Impairment loss	-	(13,345)	(14,607)	(27,761)
Balance, December 31, 2019	**-**	**345**	**-**	**345**
Carrying amounts as at:				
December 31, 2018	44,712	209,000	92,506	346,218
December 31, 2019	**-**	**9,030**	**-**	**9,030**

During the year ended December 31, 2019, the Company conducted a review of its intangible assets which resulted in an impairment loss of $198,421 related to Genetics and $82,768 related to Book Rights (both net of amortization). The impairment loss on genetics related to genetic cannabis strains the Company purchased but will no longer continue to develop or use in production. The Company determined it is unlikely the book rights will generate future cash flow. The impairment loss is included in other income (expenses).

In connection with the purchase of the facility in February 2019, the Company disposed of remaining Lease Buyouts totalling $41,226 as no future economic benefit existed. The disposal of Lease Buyouts was recorded to General and Administrative expenses.

12. OTHER LIABILITIES

On December 6, 2019, the Company entered a manufacturing arrangement with Dycar Pharmaceuticals Ltd. (“Dycar”). Under terms of the letter of arrangement Dycar provided the Company with an advance payment of $600,000. $500,000 of the advance payment was provided to secure cannabis inputs for Dycar branded products and $100,000 for the procurement of production molds. These production inputs are procured at Dycar’s expense and accordingly this liability is reduced as the Company incurs expenditures to receive the cannabis inputs and specified production equipment. As at December 31, 2019, the Company had incurred expenditures totalling $15,130, which have been applied against this balance. Subsequent to December 31, 2019, the Company executed the final licensing and manufacturing agreement with Dycar. Refer to Note 32 for terms of this agreement.

13. LOAN PAYABLE

On October 11, 2019, the Company entered into an agreement with an institutional lender for a $7,500,000 secured bridge loan (the “Secured Bridge Loan”), secured by eligible receivables, and a $6,500,000 secured demand loan facility (the “Demand Loan Facility”) (together, the “Debt Facilities”) at an interest rate of 9% above the Bank of Montreal prime rate, secured by the Company’s assets, repayable within 12 months from the date of advance. At any given time, the combined outstanding balance of the Debt Facilities cannot exceed $11,000,000.

(Expressed in Canadian dollars)

On October 15, 2019, the Company received the full proceeds of the Demand Loan Facility. A portion of the proceeds were used to repay the remaining outstanding convertible debentures of $5,150,000 as well as accumulated interest of $143,056.

With respect to the transaction, the Company paid transaction fees of $65,000 to the lender and finders' fees equivalent to 2% of the value of the Debt Facilities. The finders' fees were paid as $100,000 cash and 375,000 common shares at a price of $0.32 per share. Transaction costs related to the Debt Facilities totalling $348,725 have been capitalized and are amortized over the term of the loan.

As at December 31, 2019, the loan payable consists of the following:

	$
Total proceeds received from demand loan, October 11, 2019	**6,500,000**
Transaction costs	(348,725)
Total proceeds, net of transaction costs	6,151,275
Amortization of transaction costs	81,723
Loan payable, December 31, 2019	**6,232,998**

Under the terms of the Secured Bridge Loan, the Company has entered into a factoring arrangement with the lender with respect to the Company's accounts receivable. Under the terms of this arrangement, all accounts receivable approved by the lender are transferred to the lender. The Company receives the invoiced amount of receivable transferred to the lender less a holdback of 20%. The Company pays a finance fee equal to 1.15% of the amount received from the lender for the first 30 days the receivable is outstanding plus daily interest beyond 30 days charged at a rate of 0.0383% until payment is received from the customer. The agreement expires on October 11, 2020.

Commencing March 1, 2020, 50% of the purchase price of all receivables purchased by the Lender from the Company shall be applied to the principal amount owing on the secured bridge loan, until the following is achieved:

- The principal loan balance is reduced to $3,500,000; or
- On August 1, 2020, if the principal is not $3,500,000, cash payments must be made by the Company to reduce the principal amount to $3,500,000.

Commencing on the earlier of August 31, 2020, or the month that the loan balance is reduced to $3,500,000, the Company will begin to make monthly principal payments on the loan in the amount of $58,333.33.

As at December 31, 2019, the Company has $143,630 recorded in accounts payable and accrued liabilities which represents the amounts owing to the lender for receivables assigned under the Secured Bridge Loan, which includes $574 of accrued interest.

(Expressed in Canadian dollars)

14. LEASE LIABILITY

	Office space	**Equipment**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	19,622	-	19,622
Additions	898,250	9,989	908,239
Lease payments	(23,412)	-	(23,412)
Interest expense	13,820	58	13,878
Balance, December 31, 2019	**908,280**	**10,047**	**918,327**
Current			103,929
Non-current			814,398

The Company recognized lease liabilities on January 1, 2019 upon the implementation of IFRS 16. Accordingly, there were no lease liabilities recognized as at December 31, 2018.

At December 31, 2019, the Company's undiscounted amount of future minimum lease payments are as follows:

	< 1 Year	2 to 5 Years	> 5 Years	**Total**
	$	$	$	**$**
Office space	256,253	1,013,035	254,100	**1,523,388**
Equipment	2,374	9,497	-	**11,871**
Total	**258,627**	**1,022,532**	**254,100**	**1,535,259**

Extension option:

Two of the Company's lease agreements for office space contain an extension option exercisable by the Company before the end of the contract periods. Where practicable, the Company seeks to include extension options in the new leases to provide operational flexibility. The extension options are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. It reassesses whether it is reasonably certain to exercise the option if there is a significant event or significant change in circumstances within its control. As at December 31, 2019, the value of future lease payments not included in lease liabilities discounted by the incremental borrowing rate is $440,740.

15. DERIVATIVE FINANCIAL INSTRUMENT AND CONVERTIBLE DEBENTURES

December 2017 Convertible Debentures

On December 13, 2017, the Company issued $11,000,000 in unsecured convertible debentures, 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 debentures are considered to be compound instruments 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 debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures 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 and on March 12, 2018, $500,000 of debt was converted into 666,666 common shares. 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.

The Company fully repaid the remaining outstanding December 2017 Convertible Debentures on October 15, 2019.

December 2019 Convertible Debentures

On December 23, 2019, the Company closed a private placement of unsecured convertible debentures in the aggregate principal amount of $2,115,000. The Debentures mature December 23, 2022, bear interest at the rate of 10% per annum, payable semi-annually on the last day of June and December of each year, commencing on June 30, 2020. The Debentures were issued at a price of $1,000 per Debenture with each Debenture being convertible, at the option of the holder, into 5,000 common shares in the capital of the Company at a conversion price of $0.20 per share.

The convertible debentures are considered to be compound instruments 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 25.0%. 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 in connection with issuance in the amount of $2,800 and legal costs of $20,000. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying amount of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.7%.

(Expressed in Canadian dollars)

During the year ended December 31, 2019, there were no conversions.

Convertible debentures consist of the following:

	Debt component	Equity component	Total
	$	$	$
Balance, January 1, 2018	8,092,903	1,363,711	9,456,614
Conversion of convertible debt	(4,505,594)	(995,661)	(5,501,255)
Accretion interest on debenture discount	546,230	-	546,230
Accretion of transaction costs	264,071	-	264,071
Deferred tax expense	-	191,715	191,715
Balance, December 31, 2018	4,397,610	559,765	4,957,375
Accretion interest on debenture discount	436,672	-	436,672
Accretion of transaction costs	182,000	-	182,000
Repayment of debentures	(5,002,071)	(161,498)	(5,163,569)
Equity portion transferred to contributed surplus on repayment	-	(398,267)	(398,267)
Issued at amortized cost, net of transaction costs	1,443,747	648,453	2,092,200
Balance, December 31, 2019	**1,457,958**	**648,453**	**2,121,411**

$529,385 in expenses related to accretion of debt discount and transaction costs has been capitalized to assets in process (2018 - $nil). $305,040 of interest expenses related to the convertible debentures has been capitalized to assets in process (2018 - $295,710).

A reconciliation of interest and accretion expense on the convertible debentures in the year ended December 31, 2019, and 2018, is as follows:

	2019	2018
	$	$
Accretion interest on debenture discount	**436,672**	546,230
Accretion of transaction costs	**182,000**	264,071
Interest expense payable in cash	**420,893**	810,301
	1,039,565	1,454,679
Total interest and accretion	**1,039,565**	1,454,679
Interest expenses capitalized in assets in process	**(834,424)**	(295,710)
Accretion and interest on convertible debentures expensed	**205,140**	1,158,980
Interest expense payable in cash	**420,893**	810,301
Interest expense paid	**(401,986)**	(644,389)
Interest expense included in accounts payable and accrued liabilities	**18,907**	165,912

16. SHARE CAPITAL

(a) CAPITAL STOCK

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

As at December 31, 2019, a total of 83,588,269 common shares were issued and outstanding.

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 $6,000.

The holder of the December 2017 convertible debentures 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 and on March 12, 2018, $500,000 of debt was converted into 666,666 common shares. 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 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. 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.

Pursuant to an agreement dated April 18, 2019, the Company issued shares in exchange for services rendered by a consultant to the Company. A total of 177,041 shares were issued at a price of $0.4787 to pay for services rendered in the amount of $84,750.

On October 22, 2019, the Company issued 375,000 common shares at a price of $0.32 per share, as a finders' fee in connection with the Debt Facilities.

(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 which 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.

(Expressed in Canadian dollars)

On November 26, 2019, the Company amended the terms of an aggregate of 9,429,896 outstanding common share purchase warrants issued in connection with the Company's reverse takeover transaction (the "RTO Warrants"), which was completed on December 15, 2017. The RTO Warrants were exercisable into common shares at an exercise price of $0.90 per common share and were set to expire on December 13, 2019. The amendment to the RTO Warrants reduced the exercise price from $0.90 to $0.75 per common share and extends the expiry date from December 13, 2019 to December 13, 2020.

	Warrants outstanding \#	Weighted average exercise price $
Outstanding, January 1, 2018	12,101,931	0.88
Granted	15,234,820	1.28
Exercised	(51,667)	0.77
Outstanding, December 31, 2018	27,285,084	1.10
Expired/cancelled	(2,020,113)	0.75
Outstanding, December 31, 2019	**25,264,971**	**1.08**

All warrants outstanding as at December 31, 2019, are exercisable.

The following warrants remain outstanding as at December 31, 2019:

Warrant description	# of warrants \#	Expiry date	Exercise price $
RTO warrants on conversion of June 2017 derivative financial instrument	1,400,000	12/13/2020	0.75
RTO warrants issued on December equity transaction	8,029,896	12/13/2020	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	09/22/2021	1.25
Rainmaker predecessor finders' units	12,810	09/22/2021	0.98
Rainmaker predecessor finders' warrants	29,942	04/27/2022	0.54
Total warrants and weighted average exercise price	**25,264,971**		**1.08**

As at December 31, 2019, the warrants outstanding have a weighted average remaining life of 0.46 years.

(Expressed in Canadian dollars)

The warrants issued or modified in the period were valued using the Black-Scholes option pricing model using the following range of assumptions:

	2019	2018
Share price	$0.18	$0.94 - $1.29
Expected dividend yield	-	-
Volatility	84.75%	83.79%*
Expected life	1.00 years	2.00 years
Forfeiture rate	-	-
Risk-free rate	1.57%	1.74%**

*Weighted average expected volatility for grants during the year ended December 31, 2018, is based on the share price volatility of five comparable publicly traded companies from within the same industry.
**Risk-free rate a weighted average for grants during the year ending December 31, 2018.

(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 in 2017.

As at December 31, 2019, based on the Company’s total common shares outstanding, a total of 8,358,827 (2018 - 8,303,623) stock options may be issued and outstanding. Based on this, the Company could grant up to 3,607,827 (2018 - 4,025,308) additional stock options beyond what was issued and outstanding as at December 31, 2019. 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).

Stock option activity for the equity compensation plan for the year ending December 31, 2019 was as follows:

	Number of options #	**Weighted average exercise price** $
Outstanding, January 1, 2018	3,713,315	0.76
Granted	1,485,000	0.83
Forfeited	(920,000)	0.78
Outstanding, December 31, 2018	4,278,315	0.78
Granted	1,151,000	0.79
Expired	(133,315)	0.91
Forfeited	(545,000)	0.77
Outstanding, December 31, 2019	**4,751,000**	**0.77**

(Expressed in Canadian dollars)

During the year ended December 31, 2019, the Company recognized $602,747 (2018 - $909,714) of share-based compensation related to stock options included in operating expenses and $204,750 related to the issuance of shares (2018 - $nil) which is included with capitalized transaction costs on the loan payable.

On June 24, 2019, the Company granted 341,000 stock options to certain consultants, exercisable for common shares at a price of $0.75 per share, 18,750 options vest immediately and expire two years from the grant date with an additional 56,250 options vesting over one year and expiring two years from the grant date. The remaining 266,000 options vest immediately and expire five years from the grant date.

On May 10, 2019, the Company granted 810,000 stock options, exercisable for common shares at a price of $0.80 per share, vesting over three years. The options expire five years from the date of grant.

On November 9, 2018, the Company granted 495,000 stock options, exercisable for common shares at a 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 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 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.

The grant date fair value is calculated using the Black-Scholes pricing model and the below inputs. Expected volatility is based on the share price volatility of five comparable publicly traded companies from within the same industry. The outstanding options as at December 31, 2019, have a weighted average remaining contractual life of 3.32 years (2018 – 3.97 years).

	2019	2018
Share price	**$0.48**	$0.59 - $0.83
Expected dividend yield	**nil**	nil
Volatility	**56.03% to 87.17%**	80.74% to 96.27%
Expected life (years)	**2 to 5**	5
Forfeiture rate	**30%**	nil
Risk-free rate	**1.34% to 1.55%**	1.74% to 2.31%

The following table presents information related to stock options at December 31, 2019:

Weighted average exercise price	**Number of options**	**Vested**	**Weighted average remaining life (years)**
$0.75	3,151,000	1,706,838	3.29
$0.80	1,335,000	356,669	4.00
$0.87	265,000	155,001	3.15
Balance as at December 31, 2019	**4,751,000**	**2,218,508**	**3.32**

(Expressed in Canadian dollars)

17. OPERATING EXPENSES BY NATURE

	2019	2018
	$	$
Salaries and benefits	**3,784,547**	2,240,248
Pre-production costs	**777,167**	705,260
Investor relations and public company costs	**674,060**	390,745
Professional fees	**651,780**	567,598
Rent, utilities and facility costs	**617,812**	699,332
Share-based compensation	**602,747**	909,714
Marketing and sales	**430,225**	605,457
Consulting fees	**353,812**	537,338
Office, telecommunications and IT	**290,549**	198,270
Travel, meals and entertainment	**254,087**	432,816
Insurance	**208,877**	58,512
Depreciation and amortization	**626,710**	407,088
Write-off of non-refundable deposits	**552,217**	-
Total operating expenses	**9,824,590**	7,752,378

18. LOSS PER SHARE

The following securities could potentially dilute loss per share in the future but have not been included in diluted loss per share because their effect was anti-dilutive:

	2019	2018
Stock options	**4,751,000**	4,278,315
Warrants	**25,264,971**	27,285,084
Convertible debentures	**10,575,000**	6,866,667

19. PREPAID ROYALTIES

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, which are edible cannabis derivatives. This agreement has a term of five years. The prepaid royalties will be expensed on a per unit basis at a rate of 10% of sales as the Company produces and sells DeepCell-licensed products. In the year ended December 31, 2019, the Company did not produce DeepCell branded products.

20. INVESTMENT IN JOINT VENTURE

The Bhang JV is 50% owned by the Company and 50% owned by the Partner. Bhang JV is a private company; therefore no quoted market prices are available for its shares. The Company has committed to investing US$5,000,000 in building cannabis-processing infrastructure to be made available to the Bhang JV. The JV holds a license agreement with Bhang Corporation providing exclusive rights to manufacture and sell Bhang branded products in Canada and the right to export those products internationally. Net proceeds from the sale of Bhang branded products sold by the Company are paid to the Bhang JV. As part of the transaction, the Company loaned US$1,000,000 to Bhang JV which was used to prepay for consulting services, packaging and royalties. The loan is due and payable on demand from the Company.

(Expressed in Canadian dollars)

No acquisition-related costs were incurred as part of the Bhang JV.

The Company's net investment in the Bhang JV as at December 31, 2019, and 2018 includes:

	December 31, 2019	December 31, 2018
	$	$
Opening balance	**1,364,200**	-
Purchase price of shares of joint venture	**-**	50
Loan to joint venture	**-**	1,316,800
Amounts receivable related to expenses paid on behalf of joint venture	**887,424**	-
Share of loss from joint venture	**(392,665)**	-
Expected credit loss	**(26,726)**	-
Change in foreign exchange on loan to joint venture	**(65,400)**	47,350
Ending balance	**1,766,833**	**1,364,200**

The Bhang JV had no activity in the year ended December 31, 2018. The Company commenced production of Bhang branded products during the year ended December 31, 2019. Sales of these products was pending receipt of the Company's edibles, extracts, and topicals sales licence from Health Canada, received subsequent to the Company's year-end on January 31, 2020.

The table below presents current and non-current assets, current and non-current liabilities as well as revenues and net loss of the Company's investment in joint venture. The financial results for Bhang JV are as at and for the period ended December 31, 2019 and December 31, 2018.

On April 20, 2020, the Bhang JV made a cash call to Bhang Corporation in the amount of $2,173,367, representing its share of the working capital contribution for the production of Bhang chocolate and related operating expenditures. As at the date of this filing, Bhang has not yet remitted payment.

	December 31, 2019	December 31, 2018
	$	$
Current assets	**1,400,943**	100
Current liabilities (due to Indiva)	**2,186,173**	-
Revenue	**-**	-
General and administrative expense	**785,330**	-
Net loss	**(785,330)**	-
Total comprehensive loss	**(785,330)**	-

21. PROMISSORY NOTE

On January 23, 2019, the Company entered into an agreement with RetailGo Inc. (“RetailGo”), to obtain a 9.9% interest in RetailGo valued at $1 and a promissory note for $1,030,000. The 9.9% ownership in RetailGo and the promissory note were provided in consideration for the $730,000 of expenses incurred by the Company on behalf of RetailGo and the transfer of $300,000 to a third party relating to a partnership with a retail licence holder. The partnership with the retail licence holder was ultimately unsuccessful. These expenses related to anticipated retail locations in Ontario. The $730,000 of expenses incurred in the year ended December 31, 2018, included $51,341 on marketing consultants, $60,420 on travel and expenses for retail-focused staff, $66,022 on payroll for retail-focused staff and the $552,217 as deposits and rent at potential retail locations.

As at the date of the transaction an asset value of $1 has been recognized for the promissory note from RetailGo, due to uncertainty of RetailGo’s ability to repay the promissory note at the date of the transaction. The Company’s former COO, General Counsel and Director, who departed in January 2019, is a founder of RetailGo. RetailGo provided the Company with 9,900,000 common shares and a non-interest bearing promissory note for $1,030,000. $300,000 of the note is due upon RetailGo completing an offering of debt, equity, or convertible securities exceeding $5,000,000, with the remaining $730,000 repayable in five years.

The Company recognized an expected credit loss of $300,000 in the year ended December 31, 2019 for amounts paid to a potential partner on behalf of RetailGo. Using IFRS 9, Management has assessed this to be a stage three, fully impaired asset. As the agreement was entered into and the $300,000 paid with the intention of establishing a relationship with a retail licence holder which did not occur, and given the fact that the counterparty has no liquid assets and no certainty of being paid, the full value has been expensed as an expected credit loss.

The Company also wrote off $552,217 in non-refundable deposits and rent payments for space related to retail locations which were abandoned due to the changes in Ontario regulations relating to retail cannabis licences. The remaining portion of the $730,000 promissory note was expensed in 2019 and relates to the marketing consultants, travel, expenses, and payroll for retail-focused staff with the remaining balance being miscellaneous expenses.

22. SUPPLEMENTAL CASH FLOWS

The following items comprise the non-cash operating working capital items to be reflected through the Company's operating cash flow activity for the periods herein:

	2019	2018
	$	$
Taxes receivable	**212,501**	(402,778)
Accounts receivable	**(440,060)**	-
Biological assets	**(292,156)**	-
Inventory	**(7,294,739)**	(970,426)
Building, equipment and construction deposits	**(561,660)**	(1,931,110)
Prepaid expenses and deposits	**437,092**	(449,993)
Accounts payable and accrued liabilities	**6,938,897**	761,030
Excise tax payable	**62,461**	-
Other liabilities	**584,870**	-
	(352,794)	(2,993,277)

23. SEGMENTED INFORMATION

The Company operates in one segment being the licensed production, processing and sale of cannabis. All fixed assets, assets in process and intangible assets are located in Canada.

24. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, promissory note, loan receivable from joint venture (Note 20), accounts payable and accrued liabilities, loan payable, and convertible debentures. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are equivalent to their carrying values given their short maturity period. The loan payable and convertible debentures were both issued close to the year end and there has been no change in the risk profile of the Company between issuance of the debt and year end, accordingly their carrying values approximates their fair value.

(a) Foreign currency risk

As at December 31, 2019, the Company did not hold any cash denominated in a foreign currency (2018 - US$17,594). Included in the net investment in joint venture, is a loan to Bhang JV denominated in US dollars, in the amount of $1,000,000 USD. A 10% strengthening or weakening in the U.S. dollar against the Canadian dollar on this loan would result in a decrease or increase of approximately $129,880 in unrealized foreign exchange gain (loss) for the year ended December 31, 2019.

(Expressed 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.

In addition to the commitments disclosed in Note 28, the Company is obligated to the following contractual maturities of undiscounted cash flows, net of interest payments:

As at December 31, 2019	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 -5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	9,554,707	9,664,735	9,664,735	-	-
Excise taxes	62,461	62,461	62,461	-	-
Loan payable	6,232,998	6,500,000	6,500,000	-	-
Lease liabilities	913,288	1,535,259	258,564	519,753	756,879
Convertible debentures	1,457,958	2,115,000	-	2,115,000	-
Total	**18,221,412**	**19,877,455**	**16,485,760**	**2,634,753**	**756,879**

As at December 31, 2018	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 -5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	2,053,238	2,053,238	2,053,238	-	-
Convertible debenture	4,397,610	5,639,250	5,639,250	-	-
Total	**6,450,848**	**7,692,488**	**7,692,488**		

(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 and cash equivalents is considered insignificant as the Company's funds are held with a Schedule I bank.

The Loan Receivable from Joint Venture has a gross value of $1,298,800 ($1,000,000 USD) with an expected credit loss of $26,726 recorded as of December 31, 2019. The expected credit loss for this asset is measured at an amount equal to the 12 month expected credit losses as management has deemed the credit risk related to this instrument has not increased significantly since initial recognition.

The credit risk related to the promissory note is carried at a gross value of $1 with an expected credit loss of $nil as of December 31, 2019. The expected credit loss for this asset is measured at an amount equal to 12 month expected credit losses as management has deemed the credit risk related to this instrument has not increased significantly since initial recognition. Management has considered weighted average probabilities including no credit loss situations up to full loan forfeiture taking into account industry and macroeconomic factors. No changes have been made in how this estimate is determined in the current reporting period.

(Expressed in Canadian dollars)

The credit risk for both the Loan receivable from joint venture and promissory note are monitored quarterly, and any change is reflected as an adjustment through expected credit loss.

The Company has assessed that it has limited customer credit risk due to the fact that accounts receivable are primarily from the sale of cannabis to government agencies and large retail outlets and have payment terms of 30 – 60 days.

During the year ended December 31, 2019, the Company earned a total gross revenue of $956,023 from two major customers (2018 – $nil). These customers each had revenues of over 10% of the Company's total revenue for the year ended December 31, 2019. Total amounts receivable owing from these customers at December 31, 2019, was $284,906 (2018 - $nil).

As at December 31, 2019, the Company's aging of receivables was approximately as follows:

	December 31, 2019	**December 31, 2018**
	$	$
Current	443,943	5,870
61 – 120 Days	-	-
Greater than 121 Days	1,987	-
Total	**445,930**	**5,870**

(d) Interest rate risk

The Company has exposure to interest rate risk related to the outstanding balance of the loan payable. The fluctuation of the interest rate may result in a material increase to the associated interest. A 100 basis point increase or decrease in benchmark interest rates may result in a $65,000 increase or decrease in interest expense. The interest rate on the convertible debenture is fixed and accordingly is not subject to interest rate risk.

25. FAIR VALUE MEASUREMENTS

As at December 31, 2019, the Company's cash and cash equivalents balance of $631,106 (2018 - $19,565,606) is 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, 2019.

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.

(Expressed in Canadian dollars)

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. Cash and cash equivalents are a Level 1. 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, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	$	**$**	**$**	$	$	$
Cash and cash equivalents	**631,106**	**-**	**-**	19,565,606	-	-
Total	**631,106**	**-**	**-**	19,565,606	**-**	**-**

26. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of $26,982,567 (2018 – $34,332,664), as shown below:

	December 31, 2019	**December 31, 2018**
	$	$
Total Debt		
Loan payable	6,232,998	-
Convertible debentures	1,457,958	4,397,610
Total Debt	**7,690,956**	4,397,610
Total Equity	**19,291,611**	29,395,054

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 its production facility in London, Ontario, and to ramp up 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 through debt or equity. Refer to Note 32 for additional information on the Company's capital events subsequent to December 31, 2019. The Company has also entered into a factoring arrangement with a lender to provide working capital financing (Note 13). The Company receives 80% of the value of the accounts receivable purchase by the lender.

(Expressed in Canadian dollars)

27. INCOME TAXES

Income tax recovery differs from the amount that would be computed by applying Canadian statutory income tax rate of 26.5% (2018 - 26.5%) to income before taxes. The reasons for the differences are as follows:

	December 31, 2019	December 31, 2018
	$	$
Loss before taxes	**(11,397,894)**	(8,656,094)
Statutory tax rate	**26.5%**	26.5%
Expected tax benefit resulting from loss	**(3,020,442)**	(2,293,865)
Non-deductible expenses and other	**312,780**	(241,074)
Deductible temporary differences for which no deferred tax asset is recognized	**2,707,662**	2,405,476
Income tax expense	**-**	(129,463)

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2019	**December 31, 2018**
	$	**$**
Non-capital loss carryforward	**21,771,651**	12,646,216
Unamortized share issuance cost	**396,416**	2,667,968
Other deductible temporary differences	**1,467,309**	-
Total	**24,435,342**	15,314,184

The effect of temporary differences and loss carryforwards that give rise to significant portions of the deferred tax assets and liabilities, which has been recognized during the year ended December 31, 2019 are as follows:

	December 31, 2018	**Recognized in net loss**	**Recognized in equity**	**December 31, 2019**
	$	**$**	**$**	**$**
Deferred tax assets				
Non-capital losses carried forward	179,758	263,982	-	**443,740**
ROU liability	-	243,532	-	**243,532**
Financing fees	125,005	(4,242)	134,788	**255,551**
	304,763	503,272	134,788	**942,823**
Deferred tax liabilities				
Biological assets and harvested inventory	-	(124,105)	-	**(124,105)**
ROU asset	-	(246,499)	-	**(246,499)**
Property, plant and equipment	(172,085)	(226,017)	-	**(398,102)**
Biological assets and inventory	(132,678)	93,348	(134,787)	**(174,117)**
	(304,763)	(503,272)	(134,787)	**(942,823)**
Net deferred tax	-	-	-	**-**

(Expressed in Canadian dollars)

In assessing the ability to realize the benefit of the deferred tax assets, management considers whether it is probable that some portion or all the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income. Management considers the likelihood of future profitability, the character of the deferred tax assets and available tax planning strategies in making this assessment. To the extent that management believes it is probable the deferred tax assets will be realized, that portion of the deferred tax assets is recognized in the financial statements.

Based on this assessment, a portion of the deferred tax assets as at December 31, 2019 and 2018 have not been recognized in the consolidated financial statements.

As at December 31, 2019, the Company had non-capital loss carryforwards of approximately $21,771,651 that expire between 2035 and 2039.

28. COMMITMENTS

The Company contractual obligations for contractors, consultants, IT services, facility services and equipment and construction costs with terms remaining of up to three years.

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

2020	2021	2022	2023	2024	2025+	Total
$ 1,203,374	$ 153,239	$ 2,207	-	-	-	$ 1,358,820

Subsequent to period end, the Company entered into commitments totalling $2,242,768. These commitments are primarily comprised of IT and marketing services, and production supplies.

Under the terms of a license agreement entered into subsequent to December 31, 2019, the Company will incur minimum expenditures of $200,000 per quarter for marketing related to the licensed products. The license agreement is for an initial three-year term beginning March 4, 2020.

In the normal course of business, the Company may be involved in legal proceedings, claims and assessments. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance. Legal fees for such matters are expensed as incurred and the Company accrues for adverse outcomes as they become probable and estimable.

29. KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the 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 14.32% of the outstanding shares of the Company as at December 31, 2019 (2018 – 18.05%).

(Expressed in Canadian dollars)

Key management personnel compensation for the year ending December 31, 2019, was as follows:

	2019	2018
	$	$
Short-term key management personnel compensation	**846,941**	795,374
Share-based payments	**313,508**	581,943
Termination payments	**480,000**	-
Directors' fees	**22,500**	22,500

30. RELATED-PARTY TRANSACTIONS

The Company's transactions with RetailGo were considered related-party as a former officer and director of the Company is a founder of RetailGo. Refer to Note 19 for further details. For the year ended December 31, 2018, the Company paid $21,851 for legal services and $10,170 in rent to a law firm owned by the former officer and director.

The Company has a related party relationship with the Bhang JV. During the year ended December 31, 2019, the Company invoiced the Bhang JV $887,424 for the recovery of expenses related to marketing, pre-production costs, management, and administration (Note 20).

31. COMPARATIVE FIGURES

Certain comparative amounts in these financial statements have been re-classified as a result of a change in presentation of certain expenses on a functional basis during the current year, as well as presentation between long and short term on the balance sheet of prepaid expenses and deposits. The Company notes no material changes have been made to any of these figures other than classifications within operating expenses.

32. SUBSEQUENT EVENTS

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", has resulted in a widespread health crisis that has affected economies and financial markets around the world resulting in an economic downturn. The outbreak may cause staff shortages, reduced customer demand, or increased government regulations, all of which may negatively impact the business, financial conditions, or results of operations of the Company. The duration and impact of the COVID-19 outbreak is unknown at this time and it is not possible to reliably estimate the length and severity of these developments.

On January 20, 2020, the Company closed a second tranche of unsecured convertible debentures in the aggregate principal amount of $1,040,000. The debentures mature three years after issuance, bear interest at a rate of 10% per annum, payable semi-monthly, commencing June 30, 2020, and are convertible into common shares of the Company at a conversion price of $0.20 per share. In connection of the issuance of the convertible debentures the Company paid finder's fees totalling $3,500.

On January 31, 2020, the Company received an amendment to its' license from Health Canada authorizing the sale of edibles, extracts and topicals.

On February 4, 2020, the Company closed a non-brokered private placement of unsecured convertible debentures in the aggregate principal amount of $1,500,000. The debentures mature three years after issuance, bear interest at a rate of 10% per annum, payable semi-monthly, commencing June 30, 2020, and are convertible into common shares of the Company at a conversion price of $0.25 per share.

On February 18, 2020, the Company executed the licensing and manufacturing agreement with Dycar Pharmaceutical Ltd. Pursuant to the agreement, Dycar committed to provide the Company non-dilutive financing in the amount of $3,600,000 immediately, $600,000 of which was previously advanced prior to December 31, 2019, and is included in other liabilities (Note 12), and an additional $4,500,000 of non-dilutive financing over two instalments. The advances will be repaid through proceeds from the sale of Dycar branded products.

On February 18, 2020, the Company approved the grant of 3,069,833 stock options to directors, officers, employees and consultants of the Company. The options are exercisable into common shares of the Company at a price of $0.40 per common share and have a five year term which expires February 18, 2025. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

On March 4, 2020, the Company executed a license and consulting agreement with The Cima Group LLC, the holder of Wana Brands intellectual property. Under the terms of the agreement, the Company will have exclusive rights to produce and distribute Wana products in Canada. The agreement is for a three-year term, renewable, and requires the Company to pay a variable license fee.

On March 30, 2020, Health Canada approved a license amendment to add 10,000 square feet of production space at the Company's London, Ontario, facility.

As at May 14, 2020, debenture holders had converted $1,045,000 of principal on the convertible debentures into 5,225,000 common shares of the Company. Accrued interest payable on the date of conversion to debentures holders is $39,108.