INDIVA LIMITED

Annual Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2020 and 2019

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, 2020 and December 31, 2019, and the consolidated statements of net loss and comprehensive loss, changes in equity and cash flow 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, 2020 and December 31, 2019, 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 3 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss for the year ended December 31, 2020 and, as at that date, had an accumulated deficit. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, 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 13, 2021 — Licensed Public Accountants

Indiva Limited
Consolidated Statements of Financial Position
As at December 31, 2020 and 2019
(Expressed in Canadian dollars)

As at	*Note*	December 31, 2020	December 31, 2019
		$	$
ASSETS			
Current assets			
Cash		**314,042**	631,106
Taxes receivable		**169,271**	380,252
Accounts receivable	**5**	**4,555,824**	445,930
Inventory	**6**	**6,495,541**	8,343,843
Biological assets	**7**	**69,829**	453,867
Prepaid expenses and deposits	**8**	**616,182**	257,758
Total current assets		**12,220,689**	10,512,756
Other non-current assets			
Property, plant and equipment	**9**	**22,680,008**	18,773,075
Assets in process	**10**	**13,206**	3,694,404
Building, equipment and construction deposits		**222,268**	1,399,882
Intangible assets	**11**	**2,082,170**	9,030
Investment in joint venture	**12**	**-**	1,766,833
Equity investment		**1**	1
Promissory note		**1**	1
Prepaid royalties	**13**	**1,948,950**	1,948,950
Total assets		**39,167,293**	38,104,932
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**7,478,240**	9,413,077
Excise tax payable		**1,011,327**	62,461
Factoring payable	**14**	**3,575,466**	143,630
Deferred revenue	**15**	**2,334,214**	-
Other liabilities	**16**	**213,490**	584,870
Loan payable	**14**	**4,736,591**	6,232,998
Lease liability	**17**	**650,553**	103,929
Promissory note	**18**	**1,385,198**	-
Provision for onerous contract	**15**	**2,646,423**	-
Total current liabilities		**24,031,502**	16,540,965
Other non-current liabilities			
Other liabilities	**16**	**734,788**	-
Deferred revenue	**17**	**28,350**	-
Lease liability	**17**	**710,902**	814,398
Convertible debentures	**19**	**2,442,153**	1,457,958
Total liabilities		**27,947,695**	18,813,321
Equity			
Share capital	**20**	**42,415,786**	37,487,265
Contributed surplus		**4,723,080**	398,267
Reserves		**5,337,081**	7,239,801
Accumulated other comprehensive loss		**(19,537)**	(19,537)
Accumulated deficit		**(41,236,812)**	(25,814,185)
Total equity		**11,219,598**	19,291,611
Total liabilities and equity		**39,167,293**	38,104,932

Commitments (Note 33), Subsequent Events (Note 37), and Going Concern (Note 3)

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, 2020 and 2019

(Expressed in Canadian dollars)

	Note	**December 31, 2020**	December 31, 2019
		$	$
Gross revenue	**23**	**16,188,355**	1,120,603
Excise taxes		**(1,537,524)**	(196,741)
Net revenue		**14,650,831**	923,862
Cost of goods sold	**6**	**(12,589,409)**	(921,039)
License fee	**23**	**(518,598)**	-
Write down of inventory to net realizable value	**6**	**(2,338,245)**	(80,827)
Gross margin before fair value adjustments		**(795,421)**	(78,004)
Fair value adjustment on sale of inventory		**(316,841)**	(243,261)
Unrealized fair value adjustment on biological assets	**7**	**238,716**	375,627
Gross margin		**(873,546)**	54,362
Operating expenses			
General and administrative		**5,607,933**	5,762,768
Marketing and sales		**1,612,799**	2,157,558
Research and development		**11,643**	122,590
Share-based compensation	**20(c)**	**250,213**	602,747
Depreciation of property, plant and equipment	**9**	**290,381**	602,562
Amortization of intangible assets	**11**	**96,549**	24,148
Total operating expenses	**21**	**7,869,518**	9,272,373
Loss from operations		**(8,743,064)**	(9,218,011)
Other income (expenses)			
Foreign exchange gain (loss)		**44,463**	(110,111)
Finance costs	**27**	**(2,020,480)**	(439,537)
Transaction costs	**14,18,19**	**(306,663)**	(182,023)
Interest income		**7**	137,332
Expected credit loss	**5, 29(c)**	**(143,189)**	(326,726)
Share of income (loss) on investment in joint venture	**12**	**133,091**	(392,665)
Loss on disposal of assets	**9,10**	**(734,295)**	(32,747)
Write off of non-refundable deposits	**8**	**(990,235)**	(552,217)
Loss on issuance of shares	**19**	**(25,400)**	-
Gain on settlement of joint venture	**12**	**10,621**	-
Provision for onerous contract	**15**	**(2,646,423)**	-
Impairment loss on intangible assets	**11**	**-**	(281,189)
Net loss before tax		**(15,421,567)**	(11,397,894)
Income tax expense	**32**	**(1,060)**	-
Total loss and comprehensive loss attributable to shareholders		**(15,422,627)**	(11,397,894)
Loss per share, basic and diluted	**22**	**(0.16)**	(0.14)
Weighted average number of outstanding shares, basic and diluted	**20(a)**	**95,619,485**	83,158,021

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, 2020 and 2019

(Expressed in Canadian dollars)

	Note	Share capital Shares	Share capital Amount	Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		#	$	$	$	$	$	$
Balance, January 1, 2020		83,588,269	37,487,265	398,267	7,239,801	(25,814,185)	(19,537)	19,291,611
Share-based compensation	**20(c)**	-	-	-	250,213	-	-	250,213
Conversion of convertible debentures	**19**	7,500,000	1,540,061	-	(460,513)	-	-	1,079,548
Equity portion of convertible debentures issued in 2020	**19**	-	-	-	722,288	-	-	722,288
Equity units issued with purchase warrants	**20(a)**	17,264,996	3,365,553	-	1,813,946	-	-	5,179,499
Shares issued in lieu of interest	**19**	461,832	140,858	-	-	-	-	140,858
Shares issued to settle account payable	**20(a)**	740,855	177,805	-	-	-	-	177,805
Broker warrants issued	**20(a)**	-	(96,159)	-	96,159	-	-	-
Expiration of purchase warrants	**20(a)**	-	-	4,324,813	(4,324,813)	-	-	-
Share issuance costs	**20(a)**	-	(199,597)	-	-	-	-	(199,597)
Net loss for the year		-	-	-	-	(15,422,627)	-	(15,422,627)
Balance, December 31, 2020		**109,555,952**	**42,415,786**	**4,723,080**	**5,337,081**	**(41,236,812)**	**(19,537)**	**11,219,598**

	Note	Share capital Shares	Share capital 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	20(c)	-	-	-	536,737	-	-	536,737
Share issued for services	20(a)	552,041	204,750	-	-	-	-	204,750
Repayment of December 2017 debentures	19	-	-	398,267	(559,765)	-	-	(161,498)
Equity portion of 2019 convertible debentures	19	-	-	-	648,453	-	-	648,453
Modification of warrants	20(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**

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, 2020 and 2019
(Expressed in Canadian dollars)

	Note	2020	2019
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss and comprehensive loss for the year		**(15,422,627)**	(11,397,894)
Adjustments to reconcile net loss to cash used in operating activities:			
Unrealized fair value adjustment on biological assets	7	**(238,716)**	(375,627)
Realized fair value adjustment on sale of inventory		**316,841**	243,261
Write-off of inventory to net realizable value	6	**2,338,245**	80,827
Depreciation and amortization	9, 11	**386,930**	862,852
Amortization of transaction costs on loan payable	14	**282,756**	81,723
Accretion of discount on convertible debenture	19	**261,802**	436,672
Accretion of transaction costs on convertible debentures	19	**10,929**	182,000
Interest accretion on lease liability	17	**90,425**	13,878
Interest accretion on other liabilities	16	**83,213**	-
Interest accretion on promissory note	18	**13,615**	-
Interest capitalized in purchase of assets in process	10	**(179,379)**	(834,425)
Accretion of transaction costs on promissory note	18	**65,747**	-
Share of income from investment in joint venture	12	**(133,091)**	392,665
Unrealized exchange (gain) loss	12	**(57,099)**	65,400
Gain on settlement of joint venture	12	**(10,621)**	-
Share-based compensation	20(c)	**250,213**	807,497
Shares issued to settle account payable and interest on convertible debentures	19, 20(a)	**318,663**	-
Loss on disposal of assets	9, 10	**734,295**	32,747
Write off leasehold improvements to rent expense on building purchase		**-**	47,247
Write off of non-refundable deposits	8	**990,235**	
Write off lease buyout to rent on building purchase		**-**	41,226
Impairment loss on intangible assets	11	**-**	281,189
Provision for onerous contract	15	**2,646,423**	-
Expected credit loss	12	**143,189**	326,726
Interest income		**(7)**	(137,332)
Changes in non-cash operating working capital	25	**127,286**	(1,080,544)
Total cash outflows used in operating activities		**(6,980,733)**	(9,929,912)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	9	**(1,384,686)**	(7,868,200)
Proceeds on disposal of property, plant and equipment	9	**238,094**	26,000
Acquisition of assets in process	10	**(935,045)**	(4,189,895)
Acquisition of intangible assets		**-**	(9,375)
Funds provided for promissory note		**-**	(300,000)
Interest received		**7**	137,332
Total cash outflows used in investing activities		**(2,081,630)**	(12,204,138)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of equity units, net of issuance costs	20(a)	**4,979,902**	-
Proceeds from issuance of convertible debentures, net of issuance costs	19	**2,513,300**	2,092,200
Repayment of convertible debentures		**-**	(5,163,569)
Payment of principal portion of lease liabilities	17	**(190,138)**	(23,412)
Advances on secured bridge loan	14	**12,963,804**	243,632
Repayment of secured bridge loan	14	**(9,531,968)**	(100,576)
Proceeds on loan payment, net of transaction costs	14	**-**	6,151,275
Repayment of loan payable	14	**(1,864,331)**	-
Transaction costs on loan payable	14	**(70,810)**	-
Transaction costs on promissory note	18	**(54,460)**	-
Total cash inflows from financing activities		**8,745,299**	3,199,550
Decrease in cash		**(317,064)**	(18,934,500)
Cash, beginning of year		**631,106**	19,565,606
Cash, end of year		**314,042**	631,106

Supplemental cash flow information is provided in Note 23

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 received the sales amendment to its licence on August 10, 2018 and its extracts, edibles and topicals amendment on January 31, 2020.

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 as at January 1, 2020.

These Financial Statements were approved and authorized for issue by the Board of Directors on May 12, 2021.

(b) BASIS OF MEASUREMENT

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

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

(c) COVID-19 ESTIMATION UNCERTAINTY

On March 11, 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and measures being introduced at various levels of government to curtail the spread of the virus such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing, may have a material impact on the Company's operations. Furthermore, our employees and contractors could be affected by COVID-19 that could result in a reduction in our workforce due to illness or quarantine which could result in the disruption of our operations or hinder the Company's ability to secure financing. The production and sale of cannabis in Canada was deemed an essential service throughout the year ended December 31, 2020. During the second and third quarters of 2020, the Company experienced a decline in sales which, in part, can be attributed to the economic uncertainty caused by the COVID-19 pandemic. The Company has implemented procedures and protocols at its production facility and offices, including enhanced screening measures, enhanced cleaning and sanitation processes and frequency, encouraging social distancing measures and directing employees to work from home if possible. The Company believes that it can maintain safe operations with these pandemic related procedures and protocols in place.

The potential impact that COVID-19 will have on the Company's business or financial results cannot be reasonably estimated at this time. However, any shutdowns requested or mandated by government authorities in response to the outbreak of COVID-19 that may affect the Company, its suppliers, distribution channels or customers may have a material impact to the Company's planned operations. It is possible that estimates in the Company's financial statements will change as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

3. GOING CONCERN

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 loss and comprehensive loss attributable to shareholders of $15,422,627 for the year ended December 31, 2020 (2019 - $11,397,894), an accumulated deficit of $41,236,812 at December 31, 2020 (2019 - $25,814,185), and negative cash flow from operations during the year ended December 31, 2020 of $6,980,733 (2019 – negative cash flow from operations of $9,929,912). 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 values and to extinguish liabilities in the normal course of business at the amounts stated in the Financial Statements.

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, however on February 23, 2021 the Company closed a $22,000,000 strategic investment by Sundial Growers (see Note 37).

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.

4. 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, 2020 were as follows:

Name of subsidiary	**Place of incorporation**	**Ownership interest as at**		**Principal activity**
		December 31, 2020	December 31, 2019	
Indiva Amalco Ltd.	Ontario	**100%**	100%	Holding company
Indiva Inc.	Ontario	**100%**	100%	Licensed Producer under Cannabis Act
2639177 Ontario Inc.	Ontario	**100%**	50%	Previous joint venture arrangement
Vieva Canada Ltd.	Ontario	**100%**	100%	Holds real estate for production facility

(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 products 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.

The Company records a contract liability in the statement of financial position where a customer has paid an amount of consideration prior to the Company achieving the performance obligations in the contract. The contract liability is presented as deferred revenue on the consolidated statements of financial position. Over the contract term revenue is recognized as the performance obligations in the contract are fulfilled.

(d) CASH

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 accounts 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. 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	FVTPL
Accounts receivable	Amortized cost
Promissory note	Amortized cost
Equity investment	FVTPL
Factoring payable	Amortized cost
Other liabilities	Amortized cost
Promissory note	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Loan payable	Amortized cost
Lease liability	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 accounts 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.

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 as the residual amount after deducting the fair value of the liability component from the total proceeds. 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
Vehicle	8 years
Right of use assets	5 – 7 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

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 statements 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 genetics rights which provide the company with the right to use certain strains, a license to manufacture Bhang chocolates, lease buyouts, 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 buyouts	2 years 5 months to 5 years
Licensing	9 years, 5 months
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, CONTINGENT LIABILITIES AND ONEROUS CONTRACTS

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.

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.

The Company has recognized an onerous contract liability for a contract where the unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received under the contract (Note 15). Unavoidable costs are the lower of the costs of fulfilling the contract and any compensation or penalties from the failure to fulfill the contract. The Company records a provision equal to the total unavoidable costs, net of the expected benefits, and the resulting liability is presented on the consolidated statements of financial position. The Company reassesses the contract at each reporting period and any change in the provision is recognized in the period in the consolidated statement of net loss and comprehensive loss.

(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

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 relative fair value method. Proceeds are allocated between the common shares and the options or warrants based on the relative fair value of each equity instrument .

(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, convertible debentures and warrants are antidilutive.

(n) SHARE-BASED COMPENSATION

The Company has a share-based compensation plan (the "Plan") described in Note 20(c). Compensation costs are measured at the grant date based on the fair value of the award and are recognized over the vesting period in net loss, based on the best available estimate of the number of share options expected to vest, 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.

Any adjustment to cumulative share-based compensation resulting from a revision is recognized in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

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 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.

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, finished goods and work-in-process from processing services, consumable supplies and accessories. Cannabis Inventory includes dried cannabis, cannabis extracts including edible cannabis products and capsules, processing services inventory, 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 on a first in, first out basis. 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

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) JOINT OPERATIONS

The Company has entered into license and manufacturing agreements that are subject to joint arrangements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. For joint operations, the Company recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of loss and comprehensive loss. When an entity enters into a transaction with a joint operation in which it is a joint operator, such as a sale or contribution of assets, it is conducting the transaction with the other parties to the joint operation and, as such, the joint operator shall recognise gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation.

(s) GOVERNMENT GRANTS

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the conditions of the grant and the grant will be received. Government grants receivable are recorded in accounts receivable on the consolidated statements of financial position. The Company recognizes government grants in the consolidated statements of loss and comprehensive loss as a reduction in expenses in the same period as the expenses for which the grant is intended to compensate. In cases where a government grant becomes receivable as compensation for expenses already incurred in prior periods, the grant is recognized in the consolidated statements of loss and comprehensive loss in the period in which it becomes receivable.

(t) ASSET ACQUISITION

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

(u) SEGMENTED REPORTING

The Company operates in one business segment, the production, processing, and sale of cannabis and cannabis related products. At December 31, 2020, the Company had operations in one geographic area, Canada.

(v) NEW STANDARDS ADOPTED IN THE CURRENT YEAR

Amendment to IFRS 3 – Business Combinations

The amendment to IFRS 3 clarifies the definition of a business and includes an optional concentration test to determine whether an acquired set of activities and assets is a business. The Company has adopted these amendments effective January 1, 2020. The adoption of these amendments did not have an impact on the Company's Financial Statements.

(w) 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.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform

The amendments revise the existing requirements for hedge accounting and are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest-rate benchmarks such as Interbank Offered Rates ("IBOR"). The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. The Company is currently evaluating the potential impact of these amendments and does not expect significant impacts on the Company's Financial Statements.

Amendments to IAS 37: Onerous Contracts and the cost of Fulfilling a Contract

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

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 (Note 3).

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 assets

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 consolidated statements 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, inventory damage, and customer demand for products.

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 historical volatility of the Company's shares.

Onerous contract

In calculating the onerous contract provision management is required to make estimates to determine the cost to fulfill the contract and economic benefits expected to be received under the contract. These estimates include expected sales volumes over the period of the contract, cost of sales, and selling prices.

Leases – determination of the appropriate discount rate to measure lease liabilities

Where the interest rate implicit in a lease agreement cannot be determined, management uses its incremental borrowing rate as the discount rate for determining its lease liabilities at the lease commencement date. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over similar terms which requires estimations when no observable rates are available. Management estimates this rate based on market rates, rates charged to the Company by lenders, and the type of asset held as security.

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)

5. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2020, and 2019, consisted of the following:

	December 31, 2020	December 31, 2019
	$	$
Trade receivables	**241,528**	261,583
Trade receivables subject to factoring arrangement	**4,313,280**	182,332
Other receivables	**1,016**	2,015
Total accounts receivable	**4,555,824**	445,930

The carrying amounts of the accounts receivables include receivables which are subject to a factoring arrangement (Note 14). 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 factoring payable on the consolidated statements 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 recognized an expected credit loss totalling $27,798 related to accounts receivable for the period ended December 31, 2020 (2019 - $nil). Due to the short-term nature of trade receivables, the carrying value is considered to be the same as the fair value.

6. INVENTORY

Inventory as at December 31, 2020, and December 31, 2019, consisted of the following:

		December 31, 2020		December 31, 2019
	Capitalized cost	**Biological assets fair value adjustments**	**Total**	Total
	$	**$**	**$**	$
Dried cannabis				
Finished goods	**70,901**	**19,532**	**90,433**	117,032
Work-in-process	**853,305**	**173,866**	**1,027,171**	255,474
Cannabis extracts				
Finished goods	**1,622,765**	**-**	**1,622,765**	1,126,186
Work-in-process	**2,233,804**	**-**	**2,233,804**	6,122,626
Processing services				
Finished goods	**101,480**	**-**	**101,480**	-
Work-in-process	**21,732**	**-**	**21,732**	-
Harvested cannabis trim	**175,846**	**-**	**175,846**	98,923
Packaging, supplies and other inventory	**1,222,310**	**-**	**1,222,310**	623,602
Total inventory	**6,302,143**	**193,398**	**6,495,541**	8,343,843

(Expressed in Canadian dollars)

Inventory expensed to cost of goods sold during the year ended December 31, 2020 was $10,819,278 (2019 – $877,256). Cost of goods sold also includes royalties totaling $1,760,903 paid on the sale of licensed products (2019 - $nil) and other costs totaling $9,228 (2019 - $nil). In the year ended December 31, 2020, the Company recorded inventory write-offs totalling $2,338,245 where inventory carrying costs exceeded the net realizable value (2019 - $80,827). The write-offs include a provision for finished goods and bulk cannabis products due to aging inventory and a lack of distribution capacity for certain products such as oil filled capsules. The provision also includes a write-down to net realizable value for products produced using cannabis inputs acquired in 2019 at a cost significantly higher than current market prices.

7. BIOLOGICAL ASSETS

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

	December 31, 2020	December 31, 2019
	$	$
Carrying amount, beginning of year	**453,867**	-
Production costs capitalized	**1,074,437**	536,901
Net increase in fair value due to biological transformation less cost to sell	**238,716**	375,627
Plants sold prior to harvest	**-**	(4,308)
Transferred to inventory upon harvest	**(1,697,191)**	(454,353)
Carrying amount, end of year	**69,829**	453,867

As at December 31, 2020, the fair value of biological assets included $69,829 in cannabis plants (2019 - $453,867). 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;
- 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.

(Expressed in Canadian dollars)

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, 2020, input values	December 31, 2019, input values	5% increase (decrease) in significant input as at December 31, 2020	5% increase (decrease) in significant input as at December 31, 2019
Average selling price Obtained through actual purchase and sale prices observed in the marketplace	$5.30 per gram	$4.65 - $5.41 per gram	$7,000 increase ($7,000 decrease)	$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	27-33 grams per plant	23-34 grams per plant	$3,000 increase ($3,000 decrease)	$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	82% complete	Average of 59% complete	$4,000 increase ($4,000 decrease)	$25,000 increase ($22,000 decrease)
Post harvest costs include drying and curing, testing, post-harvest overhead allocation, packaging and labelling costs	$2.61 per gram	$1.14 per gram	$3,000 decrease ($3,000 increase)	$7,000 decrease ($7,000 increase)
Wastage Represents the average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested	1%–3% dependent upon the strain	7%–9% dependent upon the strain	< $1,000 decrease (< $1,000 increase)	$2,000 decrease ($2,000 increase)

The unobservable inputs, all of which are classified as Level 3 on the fair value hierarchy are used in determining the fair value of biological.

(Expressed in Canadian dollars)

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2020	December 31, 2019
	$	$
Rent, security and utility deposits	**286,469**	38,293
Government of Canada surety bond	**208,000**	-
Other prepayments	**121,713**	219,465
Total prepaid expenses and deposits	**616,182**	257,758

Other prepayments are primarily comprised of prepayments for raw materials for production and packaging inventory.

During the year ended December 31, 2020, the Company wrote off non-refundable deposits totalling $990,235 related to extraction equipment and facility upgrades (2019 - $552,217). The Company is no longer proceeding with the planned implementation of this line and has shifted resources to other production activities.

(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, 2019	-	-	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
Additions	-	400,333	62,546	498,972	-	14,378	542,841	1,519,070
Disposals	-	-	(1,100)	(1,016,602)	-	(16,515)	-	(1,034,217)
Transferred from assets in process	-	3,565,569	-	968,243	-	16,250	-	4,550,062
Balance, December 31, 2020	**252,275**	**18,500,608**	**61,446**	**4,312,290**	**74,665**	**462,216**	**1,522,795**	**25,186,295**
Accumulated depreciation								
Balance, January 1, 2019	-	-	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
Depreciation for the year	-	394,481	1,386	525,025	9,804	95,108	252,167	1,277,971
Disposals	-	-	(202)	(146,782)	-	(3,005)	-	(149,989)
Balance, December 31, 2020	**-**	**971,672**	**1,184**	**940,412**	**29,420**	**261,663**	**301,936**	**2,506,287**
Carrying amounts as at:								
December 31, 2019	252,275	13,957,515	-	3,299,508	55,049	278,543	930,185	18,773,075
December 31, 2020	**252,275**	**17,528,936**	**60,262**	**3,371,878**	**45,245**	**200,553**	**1,220,859**	**22,680,008**

(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.

As at December 31, 2020, $70,265 of the cost of the Company's additions were included in accounts payable and accrued liabilities (2019 - $666,101). In the year ended December 31, 2020, building, equipment and construction deposits totaling $1,177,614 have been applied towards the cost of additions to property, plant and equipment.

Total depreciation expense for the year ended December 31, 2020 was $1,277,971 (2019 - $838,704), of which $987,590 (2019 - $236,142) has been capitalized in the production of biological assets and inventory.

In the year ended December 31, 2020, the Company disposed of cultivation equipment and related computer hardware with an aggregate book value of $884,228 (2019 - $58,747), for proceeds totalling $238,094 (2019 - $26,000) resulting in a $646,134 loss on disposal.

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.

10. ASSETS IN PROCESS

	Building & building improvements	Leasehold improvements	Facility equipment	Office equipment & furniture	Total
	$	$	$	$	$
Cost					
Balance, January 1, 2019	-	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
Additions	463,044	-	314,602	-	777,646
Capitalized interest and accretion	179,379	-	-	-	179,379
Transfers between categories	(10,665)	-	10,665	-	-
Write-off	-	-	(88,161)		(88,161)
Transferred to PPE	(3,565,569)	-	(968,243)	(16,250)	(4,550,062)
Balance, December 31, 2020	**-**	**-**	**13,206**	**-**	**13,206**

(Expressed in Canadian dollars)

Interest of $179,379 was capitalized to building improvements during the year ended December 31, 2020 respectively (2019 - $834,425).

As at December 31, 2020, $nil of the cost of the Company's additions were included in accounts payable and accrued liabilities (December 31, 2019 - $157,399).

During the year ended December 31, 2020, the Company wrote-off consultant fees capitalized in assets in process totaling $88,161 related to the setup of an extraction line in the Company's production facility (2019 - $nil). The amounts were written off as the Company is no longer proceeding with the planned implementation of this line and has shifted resources to other production activities.

11. INTANGIBLE ASSETS

	Lease buyout	Genetics	Book rights	License	Total
	$	$	$	$	$
Cost					
Balance, January 1, 2019	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
Additions	-	-	-	2,169,689	2,169,689
Balance, December 31, 2020	**-**	**9,375**	**-**	**2,169,689**	**2,179,064**
Accumulated amortization					
Balance, January 1, 2019	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	-	(13,154)	(14,607)	-	(27,761)
Balance, December 31, 2019	-	345	-	-	345
Amortization for the year	-	469	-	96,080	96,549
Balance, December 31, 2020	**-**	**814**	**-**	**96,080**	**96,894**
Carrying amounts as at:					
December 31, 2019	-	9,030	-	-	9,030
December 31, 2020	**-**	**8,561**	**-**	**2,073,609**	**2,082,170**

Effective July 20, 2020, the Company and Bhang Corporation ("Bhang") amended the license agreement (the "Amended License Agreement"), replacing the previous license and joint venture agreement that was entered into in April 17, 2018. Bhang's interest in the 2639177 Ontario Inc. was conveyed to the Company for no consideration and the joint venture agreement was terminated. Under the Amended License Agreement, the Company has the exclusive right to manufacture and sell Bhang THC-infused chocolate products in Canada, and the non-exclusive right to export those products internationally. The license has an initial termination date of December 31, 2030, and is renewable for additional 5 year terms. In exchange for the license, the Company has paid an upfront license fee of $1,355,900 (USD$1,000,000), settled by the $1,355,900 (USD$1,000,000) previously advanced from Indiva to the Bhang JV. In addition to the upfront license fee paid, the Company will pay Bhang a net royalty on the sale of Bhang products manufactured and sold by the Company beginning on the effective date as well as a royalty on any non-Bhang cannabis chocolate products produced and sold by the Company. The agreement includes minimum monthly royalty payments throughout the term. The present value of the minimum royalty payments is also included in the cost of the license and a liability in the amount of $813,789 has been recorded in other liabilities on the consolidated statements of financial position. The minimum royalty payments have been discounted using an effective interest rate of 22.31%.

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 in the consolidated statements of net loss and comprehensive loss.

12. INVESTMENT IN JOINT VENTURE

The Company owned a 50% interest in 2639177 Ontario Inc. (the “Bhang JV”), a company incorporated in Ontario, under terms of a definitive joint venture agreement with Bhang. The Bhang JV is a private company therefore no quoted market prices are available for its shares. Under the terms of the Amended License Agreement (Note 11) the joint venture agreement was cancelled and the joint venture partner’s interest in the Bhang JV was conveyed to the Company for no consideration, making the Bhang JV a wholly-owned subsidiary of the Company.

(Expressed in Canadian dollars)

The Company's net investment in the Bhang JV prior to settlement included:

	$
Opening balance, January 1, 2019	1,364,200
Change in amounts receivable for expenses paid on behalf of joint venture	887,424
Expected credit loss	(26,726)
Change in foreign exchange on loan to joint venture	(65,400)
License fees payable to joint venture	-
Share of loss from joint venture	(392,665)
Ending balance on December 31, 2019	1,766,833
Change in amounts receivable for expenses paid on behalf of joint venture	120,588
Expected credit loss	(115,391)
Change in foreign exchange on loan to joint venture	57,099
License fees payable to joint venture	(518,598)
Share of income from joint venture	133,091
Ending balance on July 19, 2020	1,443,622
Settlement of the joint venture on July 20, 2020	(1,443,622)
Ending balance on December 31, 2020	**-**

The impact of the settlement and Amended License Agreement on the Financial Statements of the Company as at the effective date, July 20, 2020, are as follows:

	Before Amended License Agreement $	**After Amended License Agreement $**
Investment in joint venture	1,443,622	**-**
Intangible asset - license	-	**2,169,689**
Taxes receivable	-	**102,093**
Accrued liabilities	-	**(3,750)**
Other liability –present value of minimum royalty payments	-	**(813,789)**
Gain on settlement of joint venture	-	**(10,621)**
	1,443,622	**1,443,622**

In the year ended December 31, 2020, the Company recorded an expected credit loss of $115,391 on a loan receivable from the joint venture (2019 - $26,726).

(Expressed in Canadian dollars)

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 prior to the Bhang JV becoming a wholly owned subsidiary. The financial results for Bhang JV are as at and for the period ended July 19, 2020 and year December 31, 2019.

	July 19, 2020	December 31, 2019
	$	$
Current assets	**1,458,043**	1,400,943
Current liabilities (due to Indiva)	**1,976,718**	2,186,173
Revenue	**-**	-
General and administrative expense	**518,598**	785,330
Net income (loss)	**266,566**	(785,330)
Total comprehensive income (loss)	**266,566**	(785,330)

13. PREPAID ROYALTIES

On June 11, 2018, the Company prepaid $1,948,950 (USD$1,500,000) to DeepCell Industries ("DeepCell") for future royalty fees for sales of DeepCell branded products, which are edible cannabis derivatives. This agreement has a term of five years with a right to renew at the Company's option for additional five year terms. The prepaid royalties will be expensed on a per unit basis as the Company produces and sells DeepCell licensed products. As at December 31, 2020, the Company had not yet begun producing DeepCell branded products.

14. LOAN PAYABLE AND FACTORING PAYABLE

On October 11, 2019, the Company entered into an agreement with an institutional lender for a $7,500,000 Secured Bridge Loan and Demand 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. Transaction costs totalling $348,725 were capitalized and are amortized over the term of the loans.

On July 28, 2020, the Company agreed to terms with the lender to extend the maturity of the Company's Loan Facility until October 31, 2021. In consideration for this extension, the Company has paid fees to the lender of $65,000, and is subject to an increase of two percent in the annual interest rate charged on the Demand Loan Facility, bringing the rate to 11% above the Bank of Montreal prime rate. Until such time as the outstanding principal owing on the Demand Loan Facility is reduced to $5,000,000, 50% of the purchase price of all receivables purchased by the lender under the Secured Bridge Loan facility shall be applied to reduce the principal amount on the Demand Loan Facility, after which the Company will make monthly payments in the amount of $104,167. The change in loan terms is accounted for as a modification and accordingly the amortized cost of the liability was recalculated based on the modified timing and interest rates. As the terms and effective rate of the new loan were substantially unchanged from the original loan there was no change to the amortized cost. The transaction costs related to the extension are amortized over the remaining term of the loan.

(Expressed in Canadian dollars)

As at December 31, 2020, 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
Interest charged	196,830
Repayment of interest on loan payable	(196,830)
Amortization of transaction costs	81,723
Loan payable, December 31, 2019	6,232,998
Interest charged	828,687
Repayment of loan principal	(1,864,331)
Repayment of interest on loan payable	(672,709)
Transaction costs on extension	(70,810)
Amortization of transaction costs	282,756
Loan payable, December 31, 2020	**4,736,591**

As at December 31, 2020, the Company owed $3,575,466 to the lender for receivables assigned under the Secured Bridge Loan (December 31, 2019 - $143,630). During the year ended December 31, 2020, the Company received advances on the Secured Bridge Loan totaling $12,963,804 (2019 - $257,457), and the Company made repayments on the Secured Bridge Loan of $9,531,968 (2019 - $113,827).

15. DEFERRED REVENUE AND JOINT OPERATION

On February 18, 2020, the Company entered into a license and manufacturing agreement with Dycar Pharmaceuticals Ltd. (the “Dycar Agreement”) to produce and sell cannabis products in Canada. The unincorporated arrangement is a joint arrangement as, contractually, all the decisions about the relevant activities require unanimous consent by both parties.

On February 18, 2020, Dycar advanced the Company $3,000,000 to be applied against the cost of manufacturing services provided by the Company pursuant to the agreement. Dycar committed to advancing an additional $4,500,000, subject to the Company achieving certain production targets. The $3,000,000 advance is recorded as deferred revenue on the consolidated statements of financial position and recognized over the agreement term from the Company’s share of proceeds from the sale of products sold.

The Company’s share of the revenue and expenses related to this joint arrangement is equal to the value of the manufacturing services as defined in the agreement and is recognized when the products are sold. In the year ended December 31, 2020, the Company recorded gross sales of $684,468 (2019 - $nil) and cost of sales of $627,590 (2019 - $nil) in the consolidated statements of loss and comprehensive loss representing the Company’s share of revenue and expenses in the periods. Of the gross sales, $665,786

(Expressed in Canadian dollars)

(2019 - $nil) represents a draw down of the deferred revenue and $18,682 (2019 - $nil) was additional proceeds earned on the sale of the products sold.

Under the terms of the Dycar Agreement the Company has committed to guaranteed cash payments payable to Dycar over the term of the agreement and prior to the guaranteed sales date. Dycar has committed to providing the Company an advance for manufacturing services payable at the beginning of each phase of the agreement. Guaranteed cash payments and advance amounts are as follows:

	Guaranteed cash payments to Dycar	Advance payment to Indiva	Guaranteed sales date
	$	$	
Phase 1	7,086,750	3,000,000	February 28, 2021
Phase 2	5,670,496	2,500,000	June 28, 2021
Phase 3	4,410,995	2,000,000	September 28, 2021
Chocolate equipment (Note 17)	1,437,297	N/A	Begins after Phase 3

On August 7, 2020, the Company and Dycar amended certain terms of the Dycar Agreement. The guaranteed sale dates above reflect the dates in the amended agreement.

During the year ended December 31, 2020, the Company recognized a $2,646,423 provision for onerous contract related the guaranteed cash payments required by this agreement. The provision reflects assumptions the Company has made with respect to whether funding for guaranteed cash payments can be generated from the sale of Dycar products, the volume and product mix of those sales, and the cost to produce products in accordance with the agreement. The actual amount of the liability to the Company will vary depending on actual sales that occur prior to the guaranteed sales date. The amount that the expected costs and payment obligations under the contract exceed the sales proceeds and advance payments has been included in the provision for onerous contract in the consolidated statements of loss and comprehensive loss. At December 31, 2020, the Company estimated the costs to fulfill the contract totalled $2,406,329, which exceeded the estimated economic benefit to the Company of $240,094.

Subsequent to year end the Company and Dycar further amended the terms of the Dycar Agreement (Note 37). Under terms of the amendment, the Company has committed all phases of the agreement with extensions to the guaranteed sales dates. Under the amended terms Phases 1 and 2 complete on January 31, 2022, Phase 3 will complete on September 30, 2022, and the chocolate equipment phase will complete on January 31, 2023. On the amendment date, the Company calculated an increase of $382,194 to the onerous contract provision, which will be reviewed in each period to reflect the current best estimate.

(Expressed in Canadian dollars)

16. OTHER LIABILITIES

		December 31, 2020			December 31, 2019		
		Current	**Long-term**	**Total**	Current	Long-term	Total
		$	**$**	**$**	$	$	$
Equipment advances	**(a)**	**51,275**	**-**	**51,275**	584,870	-	584,870
Minimum royalties	**(b)**	**162,215**	**734,788**	**897,003**	-	-	-
Ending balance		**213,490**	**734,788**	**948,278**	584,870	-	584,870

(a) Under terms of the Dycar Agreement, Dycar provided the Company with an advance payment of $600,000 on December 27, 2019. $100,000 of the advance was for the procurement of production molds and $500,000 was provided to secure cannabis inputs for Dycar branded products, $51,275 of which remains unspent and is included in other liabilities as at December 31, 2020 (December 31, 2019 - $584,870).

(b) The present value of minimum royalty payments required under terms of the Bhang license agreement at initial recognition was $813,789 (Note 11). During the year ended December 31, 2020, interest accretion of $83,213 was recorded in the consolidated statements of loss and comprehensive loss. Minimum royalty payments begin in January 2021.

17. LEASE LIABILITY

	Office space	**Office equipment**	**Facility 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
Additions	-	-	542,841	542,841
Lease payments	(186,907)	(2,374)	(857)	(190,138)
Interest expense	89,790	635	-	90,425
Balance, December 31, 2020	**811,163**	**8,308**	**541,984**	**1,361,455**
Current, December 31, 2019	102,190	1,739	-	103,929
Non-current, December 31, 2019	806,090	8,308	-	814,398
Current, December 31, 2020	**119,191**	**1,864**	**529,498**	**650,653**
Non-current, December 31, 2020	**691,972**	**6,444**	**12,486**	**710,902**

During the year ended December 31, 2020, the Company received advances from Dycar totalling $553,115 for the Company to procure production equipment. The Company received this production equipment at a cost of $524,765. The difference between the amount advanced and the cost of the equipment totalling $28,350 is an administrative fee payable to Indiva that is included in deferred revenue on the consolidated statements of financial position and is recognized as revenue as payments are made to Dycar. Pursuant to the terms of the equipment purchase agreement with Dycar, the Company will provide manufacturing services to drawdown the purchase price of the equipment, after which title to the equipment will transfer to the Company. The Company has determined the period of use until title transfers to Indiva shall be accounted for as a lease and accordingly a right of use asset, included in property, plant and equipment, and lease liability has been recorded in the amount of $524,765 on the consolidated statements of financial position. The manufacturing services related to the equipment purchase commence after phase 3 of the Dycar agreement (Note 15).

(Expressed in Canadian dollars)

During the year ended December 31, 2020, the Company recognized $102,406 in variable lease payments included in general and administrative expenses on the consolidated statements of loss and comprehensive loss (2019 - $215,131).

At December 31, 2020, the Company's undiscounted amount of future minimum lease payments are as follows:

	< 1 Year	2 to 3 Years	4 – 5 Years	5+ Years	**Total**
	$	$	$	$	**$**
Office and warehouse space	200,927	409,072	235,400	206,250	**1,051,649**
Facility equipment	529,912	10,294	1,750	1,750	**541,956**
Office equipment	2,374	4,748	2,374	2,374	**9,496**
Minimum lease payments	733,213	424,114	239,524	206,250	**1,603,101**
Financing charges	(78,122)	(112,699)	(36,299)	(14,526)	**(241,646)**
Total lease liabilities	**655,091**	**311,415**	**203,225**	**191,724**	**1,361,455**

18. PROMISSORY NOTE

On September 4, 2020, the Company issued a promissory note to a vendor for $1,360,296, representing the balance owing on account with the vendor. Under the terms of the promissory note interest accrues on the outstanding balance at a rate of 15% per annum until the maturity date on January 15, 2021. The interest rate increases to 18% per annum on any balances not paid by the maturity date. A penalty fee of $150,000 is applied on each of January 15, 2021, June 15, 2021, and November 1, 2021, if the balance including interest is not paid in full. The promissory note is secured by a general security agreement, share pledge agreement made by the Company in favor of the secured party, assignment of insurance proceeds, and a security interest in the Company's intellectual property. During the year ended December 31, 2020, interest expense on the promissory note totalled $65,747 included in interest and finance expenses on the consolidated statements of loss and comprehensive loss.

In connection with issuing the promissory note, the Company incurred legal fees totaling $54,460. Legal fees are amortized straight-line over the term to maturity. During year ended December 31, 2020, amortization of legal costs totalling $13,615 is included in transaction costs on the consolidated statements of loss and comprehensive loss. No payments were made on the promissory note during the year ended December 31, 2020.

19. DERIVATIVE FINANCIAL INSTRUMENT AND CONVERTIBLE DEBENTURES

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 consolidated statements of financial position. On issuance $1,443,747 was recorded as a financial liability and $648,453 recorded to reserves. 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 value of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.7%.

During the year ended December 31, 2020, debentures with an aggregate principal totaling $1,245,000 were converted by the holders into 6,225,000 common shares of the Company. Upon conversion a carrying value of $897,175 from convertible debentures and $381,714 from equity reserves was reclassified to share capital for the year ended December 31, 2020.

January 2020 Convertible Debentures

On January 20, 2020, the Company closed the final tranche of its private placement of unsecured convertible debentures in the aggregate principal amount of $1,040,000. The debentures mature January 20, 2023, 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 consolidated statements of financial position. On issuance $692,920 was recorded as a financial liability and $321,380 recorded to reserves. The Company paid transaction costs in connection with issuance in the amount of $24,500 and legal costs of $1,200. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying fair value of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.5%.

(Expressed in Canadian dollars)

During the year ended December 31, 2020, debentures with an aggregate principal totaling $255,000 were converted by the holders into 1,275,000 common shares of the Company. On conversion a carrying value of $182,373 from convertible debentures and $78,799 from equity reserves was reclassified to share capital for the year ended December 31, 2020.

February 2020 Convertible Debentures

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 February 4, 2023, bear interest at a rate of 10% per annum, payable semi-annually, on the last day of June and December of each year. The debentures were issued at a price of $1,000 per debenture with each debenture being convertible, at the option of the holder, into 4,000 common shares in the capital of the Company at a conversion price of $0.25 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 22.5%. 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 consolidated statements of financial position. On issuance $1,098,092 was recorded as a financial liability and $400,908 recorded to reserves. The Company paid legal costs of $1,000. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying fair value of the financial liability will equal the principal balance at maturity using an effective interest rate of 22.3%.

Convertible debentures consist of the following:

	Debt	**Equity**	**Total**
	$	$	$
Balance, January 1, 2019	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)
Proceeds on issuance, net of transaction costs	1,443,747	648,453	2,092,200
Balance, December 31, 2019	1,457,958	648,453	2,106,411
Accretion interest on debenture discount	261,802	-	261,802
Accretion of transaction costs	10,929	-	10,929
Conversion to common shares	(1,079,548)	(460,513)	(1,540,061)
Proceeds on issuance, net of transaction costs	1,791,012	722,288	2,513,300
Balance, December 31, 2020	**2,442,153**	**910,228**	**3,352,381**

(Expressed in Canadian dollars)

A reconciliation of interest and accretion expense on the convertible debentures in the year ended December 31, 2020 and 2019, is as follows:

	2020	2019
	$	$
Accretion interest on debenture discount	**261,802**	436,672
Interest expense payable	**341,542**	602,893
	603,344	1,039,565
Total interest and accretion	**603,344**	1,039,565
Interest expenses capitalized in assets in process (Note 10)	**(179,379)**	(834,425)
Accretion and interest on convertible debentures expensed	**423,965**	205,140
Interest expense payable	**341,542**	602,893
Interest expense paid in shares	**(103,664)**	(11,794)
Interest expense paid in cash	**(83,010)**	(598,693)
Interest expense included in accounts payable and accrued liabilities	**153,868**	7,594

On August 7, 2020, the Company settled interest payments totaling $115,458 in exchange for common shares in the Company. This included $103,664 of interest expense related to the year ended December 31, 2020 and $11,794 related to the year ended December 31, 2019. The fair value of the shares, based on the trading price on the date issued, was $140,858 and accordingly a loss on issuance was recorded totaling $25,400 in the consolidated statements of loss and comprehensive loss. The fair value of the shares on the issuance date was $0.30 per share.

20. SHARE CAPITAL

(a) CAPITAL STOCK

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

As at December 31, 2020, a total 109,555,952 (December 31, 2019 – 83,588,269) common shares were issued and outstanding. No special shares have been issued or are outstanding.

Pursuant to an agreement dated April 18, 2019, the Company issued shares in 2019 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.

On June 25, 2020, the Company closed the first tranche of a $5,100,000 equity offering for proceeds totaling $1,012,300, in exchange for 3,374,333 units. Each unit of the offering is comprised of one common share of the Company and one common share purchase warrant at a purchase price of $0.30 per unit. Each warrant will entitle the holder to acquire one common share of the Company at an exercise price of $0.40 any time up to 36 months following the applicable closing date. The proceeds were recognized in equity and allocated $660,196 to common shares and $352,104 to reserves (Note 20(b)) based on the relative fair value of each equity instrument. The Company incurred share issuance costs totalling $5,000 related to this transaction.

(Expressed in Canadian dollars)

On August 10, 2020, the Company closed the second and final tranche of equity units issued for total proceeds of $4,167,199 in exchange for 13,890,663 units. Total proceeds of this equity offering was $5,179,499 and the total number of units issued to 17,264,996. Each unit of the offering is comprised of one common share of the Company and one common share purchase warrant, at a purchase price of $0.30 per unit. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.40 any time up to 36 months following the applicable closing date. The proceeds were recognized in equity and allocated $2,705,357 to common shares and $1,461,842 to reserves (Note 20(b)) based on the relative fair value of each equity instrument. The Company incurred share issuance costs totalling $194,597 related to this transaction.

On October 30, 2020, the Company issued 740,855 common shares to settle and pay an outstanding balance of $177,805 owed to a supplier. The fair value of the shares on the issuance date was $0.24 per share.

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

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 extended the expiry date from December 13, 2019 to December 13, 2020.

In connection with the final tranche of equity units issued August 10, 2020, the Company paid broker fees in cash totaling $168,700, representing 4.9% of the proceeds raised from units placed by the brokers and issued to the brokers a total of 562,333 non-transferable broker warrants, with a fair value of $96,159, representing 4.9% of the units placed by such brokers. Each such broker warrant entitles the holder to acquire one Common Share of the Company at an exercise price of $0.30 for a period of 36 months.

	Warrants outstanding #	Weighted average exercise price $
Outstanding, January 1, 2019	27,285,084	1.10
Expired/cancelled	(2,020,113)	0.75
Outstanding, December 31, 2019	25,264,971	1.08
Issued	17,827,329	0.40
Expired	(24,851,860)	(1.08)
Outstanding, December 31, 2020	**18,240,440**	**0.41**

(Expressed in Canadian dollars)

During the year ended December 31, 2020, 24,851,860 warrants with a value in reserves of $4,324,812 expired. The value of expired warrants is recorded to contributed surplus on the expiration date. All warrants outstanding as at December 31, 2020 are exercisable.

The following warrants remain outstanding as at December 31, 2020:

Warrant description	# of warrants	Expiry date	Exercise price
	#		$
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
Warrants issued on June 25, 2020 equity offering	3,374,333	6/25/2023	0.40
Warrants issued on August 10, 2020 equity offering	13,890,663	8/10/2023	0.40
Warrants issued to brokers on August 10, 2020 equity offering	562,333	8/10/2023	0.30
Total warrants and weighted average exercise price	**18,240,440**		**0.41**

As at December 31, 2020, the warrants outstanding have a weighted average remaining life of 2.54 years.

Warrants issued and modified in the year ended December 31, 2020 and 2019 were valued using the Black-Scholes option pricing model using the following range of assumptions:

	December 31, 2020	December 31, 2019
Share price	$0.27 - $0.285	$0.18
Expected dividend yield	-	-
Volatility	98.6% - 99.61%	84.75%
Expected life	3.00 years	1.00 years
Risk-free rate	0.26% - 0.32%	1.57%

Volatility was estimated using the average historical volatility of the Company and comparable companies in the industry that have trading history and volatility history.

(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, 2020, based on the Company's total common shares outstanding, a total of 10,955,595 (December 31, 2019 - 8,358,827) stock options may be issued and outstanding. Based on this, the Company could grant up to 3,102,262 (December 31, 2019 – 3,607,827) additional stock options beyond what was issued and outstanding as at December 31, 2020. 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).

(Expressed in Canadian dollars)

Stock option activity for the equity compensation plan was as follows:

	Number of options #	Weighted average exercise price $
Outstanding, January 1, 2019	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
Granted	4,442,333	0.38
Expired	(440,004)	0.78
Forfeited	(1,216,662)	0.71
Outstanding, December 31, 2020	**7,536,667**	**0.56**

During the year ended December 31, 2020, the Company recognized share-based compensation expense of $250,213 (2019 – $602,747) related to stock options included in operating expenses.

On December 30, 2020, the Company approved the grant of 630,000 stock options to employees of the Company. The options are exercisable into common shares of the Company at a price of $0.30 per common share and have a five-year term which expires December 30, 2025. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

On October 30, 2020, the Company granted 87,500 options to a consultant of the Company. The options vest immediately on the grant date, expire October 30, 2023, and are exercisable into common shares at an exercise price of $0.30 per share.

On June 5, 2020, the Company approved the grant of 655,000 stock options to employees 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 June 5, 2025. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

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 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.

(Expressed in Canadian dollars)

The grant date fair value is calculated using the Black-Scholes pricing model and the inputs below. Expected volatility is based on the average volatility of the Company. The exercise price used in the pricing model is that of the respective option granted. The outstanding options as at December 31, 2020, have a weighted average remaining contractual life of 3.40 years (December 31, 2019 – 3.32 years).

The table below summarizes assumptions used by the Company in calculating the value of stock options:

	Year ended December 31, 2020	**Year ended December 31, 2019**
Share price	**$0.25 - $0.34**	$0.48
Expected dividend yield	**$nil**	$nil
Volatility	**78.87% - 99.38%**	56.03% to 87.17%
Expected life (years)	**3 to 4**	2 to 5
Forfeiture rate	**29%**	30%
Risk-free rate	**0.27 – 1.07%**	1.34% to 1.55%

The following table presents information related to stock options at December 31, 2020:

Weighted average exercise price	**Number of options**	**Vested**	**Weighted average remaining life (years)**
$0.30	717,500	87,500	5.35
$0.40	3,419,833	-	4.19
$0.75	2,311,000	2,311,000	2.09
$0.80	853,334	556,671	2.97
$0.87	235,000	190,001	2.15
$0.56	**7,536,667**	**3,145,172**	**3.40**

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
$0.77	4,751,000	2,218,508	3.32

(Expressed in Canadian dollars)

21. OPERATING EXPENSES BY NATURE

	2020	2019
	$	$
Salaries and benefits	**2,864,992**	3,784,547
Pre-production costs	**136,335**	777,167
Investor relations and public company costs	**644,278**	674,060
Professional fees	**1,436,934**	651,780
Rent, utilities and facility costs	**207,684**	617,812
Share-based compensation	**250,213**	602,747
Marketing and sales	**649,394**	430,225
Consulting fees	**252,241**	353,812
Office, telecommunications and IT	**540,267**	290,549
Travel, meals and entertainment	**92,374**	254,087
Insurance	**407,876**	208,877
Depreciation and amortization	**386,930**	626,710
Total operating expenses	**7,869,518**	9,272,373

22. LOSS PER SHARE

The following table represents the number of shares to be issued on the exercise of the stock options, warrants and convertible debentures outstanding. The effect of this on diluted loss per share is anti-dilutive and accordingly, diluted loss per share is the same as basic loss per share:

	2020	2019
Stock options	**7,536,667**	4,751,000
Warrants	**18,272,576**	25,264,971
Convertible debentures	**14,275,000**	10,575,000

23. GROSS REVENUE

Gross revenue for the year ended December 31, 2020, and 2019, is disaggregated as follows:

	2020	2019
	$	$
Product sales	**15,127,016**	1,083,775
Sale of cannabis to other licensed producers	**442,478**	-
Tolling revenue	**618,861**	36,828
Total	**16,188,355**	1,120,603

Prior to the Amended License Agreement effective July 20, 2020, the joint venture held the license for Bhang licensed products. A license fee was paid by the Company to the joint venture in the amount of the gross margin of these products. The gross margin is equal to the gross revenue less excise tax and cost of sales. For the year ended December 31, 2020, the license fee payable to the joint venture totalled $518,598 (2019 - $nil). Effective July 20, 2020, the Amended License Agreement eliminated the license fee payable on sale of Bhang licensed products and replaced the license fee with a net royalty on the sale of Bhang products manufactured and sold by the Company beginning on the effective date as well as a royalty on any non-Bhang cannabis chocolate products produced and sold by the Company. Royalties on product sales are included in cost of sales.

Product sales for the year ended December 31, 2020, includes revenue related to a joint arrangement with BC Craft Supply Co Ltd. The joint arrangement is accounted for as a joint operation and the amount recorded to gross sales represents the Company's share of the revenue.

Sale of cannabis during the year ended December 31, 2020, includes a sale of cannabis oil to Dycar, the partner in the Company's joint operation (Note 15 and 16), for gross sales of $442,478. Under the terms of the license and manufacturing agreement the partner is required to provide all cannabis inputs for manufacturing. These products may be procured from third parties or directly from the Company.

Tolling revenue represents revenue for processing service arrangements whereby the Company processed customer-supplied raw materials into finished goods.

24. PROMISSORY NOTE RECEIVABLE

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.

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. Given the fact that the counterparty has no liquid assets, no retail license and the Company has no certainty of being paid, the full value has been expensed as an expected credit loss. As at December 31, 2020, there has been no change in management's assessment on recoverability of this note receivable.

In the year ended December 31, 2019, 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 the year ended December 31, 2019, and relates to the marketing consultants, travel, expenses, and payroll for retail-focused staff with the remaining balance being miscellaneous expenses.

(Expressed in Canadian dollars)

25. 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:

	2020	2019
	$	$
Taxes receivable	**313,074**	212,501
Accounts receivable	**(4,137,692)**	(440,060)
Biological assets	**351,048**	(292,156)
Inventory	**452,512**	(7,294,739)
Prepaid expenses and deposits	**(358,424)**	437,092
Accounts payable and accrued liabilities	**21,075**	6,938,897
Excise tax payable	**948,866**	62,461
Other liabilities	**(533,593)**	584,870
Deferred revenue	**2,362,564**	-
Interest on loan payable and convertible debentures	**309,846**	(401,986)
License fee payable	**518,598**	-
Amounts receivable from joint venture	**(120,588)**	(887,424)
	127,286	(1,080,544)

26. GOVERNMENT GRANTS

In April 2020, the Government of Canada announced the Canada Emergency Wage Subsidy ("CEWS") in order to help employers keep and/or return Canadian-based employees to payrolls in response to challenges posed by the COVID-19 pandemic. The Company determined that it met the employer eligibility criteria and applied for the CEWS retroactively to June 7, 2020. The Company was eligible to receive $1,138,295 for year ended December 31, 2020, and all amounts were received prior to December 31, 2020. During the year ended December 31, 2020, $830,577 of the wage subsidy relates to the Company's production employees and has reduced the cost of inventory produced during the period, $154,459 has been recorded as a reduction to wages and salaries expense for administrative employees included in general and administrative expenses and $153,259 for marketing and sales employees has been included in marketing and sales expense. At December 31, 2020, the Company no longer met eligibility requirements to continue its participation in the CEWS program. There are no unfulfilled conditions or other contingencies related to the current CEWS program.

(Expressed in Canadian dollars)

27. FINANCE COSTS

Finance costs consist of the following as at December 31, 2020, and 2019:

	2020	2019
	$	$
Interest on factored invoices (Note 14)	252,576	1,225
Interest on loan payable (Note 14)	828,687	196,830
Interest on convertible debentures (Note 19)	341,542	436,672
Accretion on convertible debentures (Note 19)	261,802	602,893
Interest on promissory note (Note 18)	65,747	-
Interest on lease liabilities (Note 17)	90,425	13,878
Interest on other liabilities (Note 16)	82,213	-
Other interest and bank charges	276,867	22,424
Interest capitalized in assets in process (Note 19)	(179,379)	(834,425)
	2,020,480	439,497

28. SEGMENTED INFORMATION

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

29. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash, accounts receivable, equity investment, promissory note, loan receivable from joint venture, accounts payable and accrued liabilities, other liabilities, loan payable, factoring payable, lease liabilities, excise tax payable, and convertible debentures. The fair value of accounts receivable, promissory note, accounts payable and accrued liabilities, lease liabilities, and factoring payable are equivalent to their carrying values given their short maturity period. The loan receivable from joint venture was due on demand and its carrying value approximates its fair value. The loan payable has a maturity of ten months and a variable interest rate and accordingly its carrying values approximates the fair value. Interest accretion on other liabilities is at the Company's effective interest rate and accordingly the carrying value is equivalent to the fair value. The Company's overall effective interest rate has not materially changed between the issuance of convertible debentures and December 31, 2020, and accordingly the fair value of these financial instruments approximates their carrying value as at December 31, 2020.

(a) Foreign currency risk

As at December 31, 2020, the Company did not hold any cash denominated in a foreign currency (2019 - $nil).

(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 33, the Company is obligated to the following contractual maturities of undiscounted cash flows, net of interest payments:

As at December 31, 2020	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 -5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	7,478,240	7,478,240	7,478,240	-	-
Excise tax payable	1,011,327	1,011,327	1,011,327	-	-
Factoring payable	3,575,466	3,575,466	3,575,466	-	-
Other liabilities	948,278	2,315,296	231,275	387,450	1,696,571
Loan payable	4,736,591	4,736,591	4,736,591	-	-
Lease liabilities	1,361,455	1,603,101	733,213	424,114	445,774
Promissory note	1,385,198	1,385,198	1,385,198	-	-
Provision for onerous contract	2,646,423	2,646,423	2,646,423	-	-
Convertible debentures	2,442,153	3,155,000	-	3,155,000	-
Total	**25,585,131**	**27,906,642**	**21,797,733**	**3,966,564**	**2,142,345**

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 tax payable	62,461	62,461	62,461	-	-
Loan payable	6,232,998	6,500,000	6,500,000	-	-
Factoring payable	143,630	143,630	143,630	-	-
Other liabilities	584,870	584,870	584,870	-	-
Lease liabilities	918,327	1,535,259	258,564	519,753	756,879
Convertible debentures	1,457,958	2,115,000	-	2,115,000	-
Total	**18,954,951**	**20,605,955**	**17,214,260**	**2,634,753**	**756,879**

(c) Credit risk

The Company's cash is exposed to credit risk, which is the risk that the counterparties to a financial instrument fail to meet its contractual obligations to the Company. The amount of credit risk related to cash is considered insignificant as the Company's funds are held with a Schedule I bank.

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, 2020. 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 changed 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. The credit risk for the promissory note is monitored quarterly, and any change is reflected as an adjustment through expected credit loss.

(Expressed in Canadian dollars)

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. The Company has recorded an expected credit loss on accounts receivable as at December 31, 2020 totaling $27,798 (2019 - $nil).

During the year ended December 31, 2020, the Company had sales of $13,113,780 to three major customers (2019 - $956,023). These customers each had revenues of over 10% of the Company's total revenue for the year ended December 31, 2020. Total amounts receivable from these customers at December 31, 2020, was $3,857,781 (December 31, 2019 - $284,906).

As at December 31, 2020, the Company's aging of receivables was approximately as follows:

	December 31, 2020	**Expected credit loss rate**	December 31, 2019	Expected credit loss rate
	$	%	$	%
Current	4,399,739	0.1	443,943	0.0
61 – 120 Days	156,085	12.7	-	-
Greater than 121 Days	-	-	1,987	0.0
Total	**4,555,824**	0.5	445,930	0.0

(d) Interest rate risk

The Company has exposure to interest rate risk related to the outstanding balance of the loan payable which carries interest at a variable rate. 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 would result in a $47,300 increase or decrease in interest expense for the year ended December 31, 2020. The interest rate on the factoring payable, promissory note, and convertible debenture is fixed and accordingly is not subject to interest rate risk.

30. FAIR VALUE MEASUREMENTS

As at December 31, 2020, the Company's cash balance of $314,042 (December 31, 2019 - $631,106) is the only financial instrument recorded at fair value. Cash is classified as a Level 1 financial instrument.

The Company did not record any liabilities at fair value as at December 31, 2020.

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 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, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	$	**$**	**$**	$	$	$
Cash	**312,042**	**-**	**-**	631,106	-	-
Total	**312,042**	**-**	**-**	631,106	**-**	**-**

31. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of $23,359,006 (December 31, 2019 – $27,126,197), as shown below:

	December 31, 2020	**December 31, 2019**
	$	**$**
Total Debt		
Factoring payable	3,575,466	143,630
Loan payable	4,736,591	6,232,998
Promissory note	1,385,198	-
Convertible debentures	2,442,153	1,457,958
Total Debt	**12,139,408**	**7,834,586**
Total Equity	**11,219,598**	**19,291,611**

The Company's accounts receivable are subject to claims as described in Note 14.

The Company's primary objectives in managing its capital are to maintain sufficient levels of capital to ramp up production and sales at the London, Ontario 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 through debt or equity.

(Expressed in Canadian dollars)

32. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying Canadian statutory income tax rate of 26.5% (2019 - 26.5%) to income before taxes. The reasons for the differences are as follows:

	December 31, 2020	December 31, 2019
	$	$
Loss before taxes	**(15,421,567)**	(11,397,894)
Statutory tax rate	**26.5%**	26.5%
Expected tax benefit resulting from loss	**(4,086,715)**	(3,020,442)
Non-deductible expenses and other	**15,320**	312,780
Deductible temporary differences for which no deferred tax asset is recognized	**4,072,455**	2,707,662
Income tax expense	**1,060**	-

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2020	**December 31, 2019**
	$	**$**
Non-capital loss carryforward	**31,986,220**	21,771,651
Unamortized share issuance cost	**60,037**	396,416
Other deductible temporary differences	**7,569,008**	1,467,309
Total	**39,615,264**	23,635,376

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, 2020 are as follows:

	December 31, 2019	**Recognized in net loss**	**Recognized in equity**	**December 31, 2020**
	$	**$**	**$**	**$**
Deferred tax assets				
Non-capital losses carried forward	443,740	(135,763)	-	**307,977**
ROU liability	243,532	79,996	-	**323,528**
Unamortized share issuance cost	255,551	(90,751)	-	**164,800**
	942,823	(146,518)	-	**796,305**
Deferred tax liabilities				
Biological assets and harvested inventory	(124,105)	124,105	-	**-**
ROU asset	(246,499)	(77,029)	-	**(323,528)**
Property, plant and equipment	(398,102)	114,230	-	**(283,872)**
Convertible debenture	(174,117)	(14,788)	-	**(188,905)**
	(942,823)	146,518	-	**(796,305)**
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, 2020 and 2019 have not been recognized in the consolidated financial statements.

As at December 31, 2020, the Company had non-capital loss carryforwards of approximately $31,986,220 that expire between 2035 and 2040.

33. COMMITMENTS

The Company has 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 for these expenditures is as follows:

	< 1 Year	1 to 5 Years	> 5 Years	**Total**
	$	$	$	**$**
Minimum lease payments and variable charges	788,476	901,741	105,875	**1,796,092**
Other commitments	798,265	67,784	-	**866,049**
Total	**1,586,741**	**969,525**	**105,875**	**2,662,141**

Subsequent to December 31, 2020, the Company entered into commitments totalling $354,327. These commitments are primarily comprised of production, marketing supplies, and consultant services.

The Company entered into a license agreement effective March 4, 2020. Under terms of the agreement, the Company will incur minimum expenditures of $200,000 per quarter for marketing related to the licensed products.

Under the terms of the Amended License Agreement with Bhang, Indiva has committed to expend an amount equal to at least five percent of net sales of the Bhang licensed products for advertising and promotion of the Bhang licensed products.

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.

(Expressed in Canadian dollars)

34. 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

Key management personnel compensation for the year ended December 31, 2020, and 2019, was as follows:

	2020	2019
	$	$
Short-term key management personnel compensation	**1,102,012**	954,633
Share-based payments	**202,064**	336,017
Termination payments	**-**	480,000
Directors' fees	**22,500**	22,500

35. RELATED-PARTY TRANSACTIONS

The Company had a related party relationship with the Bhang JV under the joint venture agreement which was amended July 20, 2020. After such date the joint venture became a wholly owned subsidiary of the Company. During the year ended December 31, 2020, the Company invoiced the Bhang JV $248,668 (2019 - $887,424) for the recovery of expenses related to marketing, pre-production costs, management, and administration prior to the effective date of the Amended License Agreement (Note 12). The Bhang JV charged license fees to the Company totalling $518,598 (2019 - $nil) related to licensed products manufactured and sold by the Company during the year ended December 31, 2020, representing the license fee payable on sales prior to the effective date of the Amended License Agreement.

On June 25, 2020, the Company closed the first tranche of an equity offering of up to $5,100,000. An affiliated corporation of a director of the Company participated in the first tranche. In connection with the first tranche, the Company issued 836,000 units to the affiliated corporation, for total consideration of $250,800. On August 10, 2020, the Company closed the second tranche of this equity offering and issued 364,000 units to the same affiliated corporation for total consideration of $109,200.

In the year ended December 31, 2020, the Company settled interest payments totaling $115,400 in exchange for Common Shares in the Company. The fair value of the shares on issuance was $0.25 per share. The debenture holders include certain related parties of the Company, including directors and officers of the Company. An aggregate of 461,832 Common Shares was issued to the creditors, which includes an aggregate of 85,589 Common Shares issued to related parties to settle interest owing.

Interest payments on convertible debentures held by related parties paid in cash during the year ended December 31, 2020 was $15,667.

36. 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. The Company notes no material changes have been made to any of these figures other than classifications within operating expenses and there is no change to total assets, total liabilities and equity, or total comprehensive loss attributable to shareholders.

37. SUBSEQUENT EVENTS

On January 12, 2021, the Company granted 300,000 options to consultants and advisors of the Company. 150,000 of the options vest immediately on the grant date, and 50,000 vest three months, six months, and nine months from the grant date. The options expire January 12, 2024 and are exercisable into common shares at an exercise price of $0.40 per share.

On January 25, 2021, the Company granted 200,000 options to a consultant of the Company. 100,000 of the options vest immediately on the grant date, and 100,000 vest on February 25, 2021. The options expire January 25, 2024 and are exercisable into common shares at an exercise price of $0.45 per share.

On January 26, 2021, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of $45,750 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 183,000 shares at a fair value of $0.25 per share which includes 152,000 shares issued to related parties.

On February 1, 2021, the Company amended the Dycar Agreement. Pursuant to the amendment the Company agreed to merge Phase 1 and Phase 2 of the Dycar Agreement and Dycar applied the $2,500,000 advance payment payable to Indiva in Phase 2 against the guaranteed cash payments payable to Dycar as of the amendment date. The merged phase commences on the amendment date and will be completed on January 31, 2022, at which time Phase 3 will commence.

On February 23, 2021, the Company closed a $22,000,000 strategic investment from Sundial Growers Inc. The investment was completed in the form of a brokered private placement of 25,000,000 common shares of the Company at a price of $0.44 per common share, for gross proceeds of $11,000,000, and a non-revolving term loan facility in the principal amount of $11,000,000. The Company incurred $920,473 in fees and commissions related to this investment.

On February 23, 2021, pursuant to the strategic investment from Sundial Growers Inc., the Company settled the loan payable and factoring payable facilities. Settlement included repayment of principal and accrued interest on the loan payable in the amount of $4,731,147, repayment of the factoring payable of $3,707,891, early payment penalty of $25,993, and legal fees totaling $3,500. On the same date, the Company also repaid the promissory note for $1,614,438, representing accrued interest, a $150,000 penalty fee applied on January 15, 2021, and principal on the date of repayment.

On February 26, 2021, the Company settled all outstanding matters with respect to Retailgo Inc., which included the return of shares of Retailgo Inc., and forgiving the promissory note receivable, which the Company had written down to a value of $1 in in the year ended December 31, 2019.

Subsequent to December 31, 2020, warrant holders exercised 581,667 warrants at an exercise price of that ranged from $0.30 - $0.40 per share. 581,667 common shares of the Company were issued pursuant to the exercise of the warrants for proceeds of $184,000.

Subsequent to December 31, 2020, debenture holders converted $135,000 of principal on the convertible debentures into 675,000 common shares of the Company. Accrued interest payable on the date of conversion to debenture holders is $1,979.