

INDIVA LIMITED

Annual Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2021 and 2020

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 statement of financial position as at December 31, 2021, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year 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, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ["IFRS"].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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 has an accumulated deficit of \$56.2 million as at December 31, 2021 and a net loss of \$15.0 million for the year then ended. 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 matter

The consolidated financial statements of the Company for the year ended December 31, 2020 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 13, 2021.

Other information

Management is responsible for the other information. The other information is comprised of Management's Discussion and Analysis for the year ended December 31, 2021.

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 audit 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 audit 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, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 IFRS, 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 audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Ernst & Young LLP

Toronto, Canada
April 26, 2022

Chartered Professional Accountants
Licensed Public Accountants



Indiva Limited
Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(Expressed in Canadian dollars)

	Note	December 31, 2021 \$	December 31, 2020 \$
ASSETS			
Current assets			
Cash		2,480,335	314,042
Taxes receivable		350,480	169,271
Accounts receivable	5	5,519,988	4,555,824
Inventory	6	6,442,301	6,495,541
Biological assets	7	-	69,829
Prepaid expenses and deposits	8	650,011	616,182
Prepaid royalty	13	71,246	-
Total current assets		15,514,361	12,220,689
Other non-current assets			
Property, plant and equipment	9	22,396,477	22,680,008
Assets in process	10	59,863	13,206
Building, equipment and construction deposits		726,711	222,268
Intangible assets	11	1,866,147	2,082,170
Equity investment	12	-	1
Promissory note	24	-	1
Prepaid royalties	13	1,877,704	1,948,950
Total assets		42,441,263	39,167,293
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		6,548,151	7,478,240
Taxes payable		1,028,691	1,011,327
Factoring payable	14	-	3,575,466
Deferred revenue	15	4,025	2,334,214
Other liabilities	16	156,780	213,490
Loan payable	14	-	4,736,591
Lease liability	17	150,457	650,553
Promissory note	18	-	1,385,198
Provision for onerous contract	14	-	2,646,423
Convertible debentures	19	701,158	-
Total current liabilities		8,589,262	24,031,502
Other non-current liabilities			
Other liabilities	16	731,393	734,788
Deferred revenue	15	-	28,350
Lease liability	17	564,068	710,902
Loan payable	14	18,327,529	-
Convertible debentures	19	1,898,412	2,442,153
Total liabilities		30,110,664	27,947,695
Equity			
Share capital	20	57,229,825	42,415,786
Contributed surplus		5,737,124	4,723,080
Reserves		5,629,233	5,337,081
Accumulated other comprehensive loss		(19,537)	(19,537)
Accumulated deficit		(56,246,046)	(41,236,812)
Total equity		12,330,599	11,219,598
Total liabilities and equity		42,441,263	39,167,293

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 Loss and Comprehensive Loss

For the years December 31, 2021 and 2020

(Expressed in Canadian dollars)

	Note	December 31, 2021 \$	December 31, 2020 \$
Gross revenue	23	35,431,277	16,188,355
Excise taxes		(2,961,030)	(1,537,524)
Net revenue		32,470,247	14,650,831
Cost of goods sold	6	(22,521,733)	(12,589,409)
License fee		-	(518,598)
Write-down of inventory	6	(2,573,012)	(2,338,245)
Gross margin before fair value adjustments		7,375,502	(795,421)
Fair value adjustment on sale of inventory		(167,642)	(316,841)
Unrealized gain (loss) on changes in fair value of biological assets	7	(140,772)	238,716
Gross margin		7,067,088	(873,546)
Operating expenses			
General and administrative	17, 26	6,083,221	5,607,933
Marketing and sales	26	4,941,563	1,612,799
Research and development		416,956	11,643
Share-based compensation	20(c)	473,821	250,213
Depreciation of property, plant and equipment	9	277,003	290,382
Amortization of intangible assets	11	207,931	96,548
Expected credit loss	5, 29(c)	6,135	143,189
Total operating expenses		12,406,630	8,012,707
Loss from operations		(5,339,542)	(8,886,253)
Other income (expenses)			
Foreign exchange gain		23,895	44,463
Finance costs	27	(2,719,845)	(2,020,480)
Transaction costs		(304,151)	(306,663)
Interest income		4,705	7
Share of income on investment in joint venture		-	143,712
Loss on issuance of shares	19	(24,425)	(25,400)
Loss on disposal of asset	9, 10, 11	(22,353)	(734,295)
Write-off of non-refundable deposits	8	(4,447)	(990,235)
Provision for onerous contract	15	(1,102,756)	(2,646,423)
Loss on contract settlement	15	(5,277,159)	-
Loss on modification of debt	14	(510,110)	-
Loss before income taxes		(15,276,188)	(15,421,567)
Deferred income taxes	32	266,954	(1,060)
Net loss and comprehensive loss attributable to shareholders		(15,009,234)	(15,422,627)
Loss per share, basic and diluted	22	(0.11)	(0.16)
Weighted average number of outstanding shares, basic and diluted	22	134,477,941	95,619,485

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

Indiva Limited
Consolidated Statements of Changes in Equity

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

	Note	Share capital		Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		Shares	Amount					
		#	\$	\$	\$	\$	\$	\$
Balance, December 31, 2020		109,555,952	42,415,786	4,723,080	5,337,081	(41,236,812)	(19,537)	11,219,598
Conversion of convertible debentures	19	825,000	175,731	-	(44,711)	-	-	131,020
Exercise of stock options	20(ii)	200,000	100,600	-	(17,600)	-	-	83,000
Vested restricted share units	20(i)	880,648	308,226	(194,444)	-	-	-	113,782
Shares in lieu of interest	19	240,269	61,500	-	-	-	-	61,500
Loss on shares issued in lieu of interest	19	-	24,425	-	-	-	-	24,425
Issuance of shares, net of tax	14	25,000,000	12,115,390	-	-	-	-	12,115,390
Share issuance costs	20(a)	-	(669,662)	-	-	-	-	(669,662)
Warrants exercised	20(b)	95,000	51,095	-	(13,095)	-	-	38,000
Warrant incentive program	20(b)	8,866,666	2,417,514	14,965	1,114,186	-	-	3,546,665
Broker warrants exercised	20(b)	486,667	229,220	-	(83,220)	-	-	146,000
Expired warrants	20(b)	-	-	999,079	(999,079)	-	-	-
Share-based compensation	20(c)	-	-	194,444	335,671	-	-	530,115
Net loss for the year		-	-	-	-	(15,009,234)	-	(15,009,234)
Balance, December 31, 2021		146,150,202	57,229,825	5,737,124	5,629,233	(56,246,046)	(19,537)	12,330,599

	Note	Share capital		Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		Shares	Amount					
		#	\$	\$	\$	\$	\$	\$
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

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

Indiva Limited
Consolidated Statement of Cash Flows

For the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

	Note	2021	2020
OPERATING ACTIVITIES			
Net loss for the year		(15,009,234)	(15,422,627)
Adjustments for:			
Deferred income taxes	32	(266,954)	-
Unrealized loss (gain) on changes in fair value of biological assets	7	140,772	(238,716)
Realized fair value adjustments on sale of inventory		167,642	316,841
Write-off of inventory to net realizable value	6	2,573,012	2,338,245
Unrealized foreign exchange loss		-	(57,099)
Depreciation and amortization	9, 11	485,655	386,930
Loss on disposal of property, plant and equipment	9, 10	22,353	734,295
Amortization of transaction costs on loan payable	14	180,181	282,756
Accretion of discount on convertible debentures	19	277,054	261,802
Accretion of transaction costs on convertible debentures	19	11,384	10,929
Accretion of loan discount	14	451,169	-
Deferred interest on loan payable added to principal	14	251,906	-
Interest accretion on lease liabilities	17	78,230	90,425
Interest accretion on other liabilities	16	171,172	83,213
Interest capitalized in purchase of assets in process	10	-	(179,379)
Interest on promissory note	18	188,395	13,615
Share of income from investment in joint venture	12	-	(133,091)
Accretion of transaction costs on promissory note	18	40,845	65,747
Share-based compensation – stock options	20	335,671	250,213
Share-based compensation – RSUs	20	194,444	-
Gain on settlement of Bhang JV	12	-	(10,621)
Loss on modification of debt	14	510,110	-
Shares issued in lieu of interest on convertible debentures and bonuses payable	19	199,707	318,663
Provision for onerous contract	15	1,102,756	2,646,423
Expected credit loss	5	6,135	143,189
Interest income		(4,705)	(7)
Write off of non-refundable deposits	8	4,447	990,235
Changes in non-cash working capital items	25	(9,954,663)	127,286
Cash used in operating activities		(17,842,516)	(6,980,733)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and assets in process	9	(644,920)	(1,384,686)
Purchase of assets in process	10	(646,456)	(935,045)
Change in building, equipment and construction deposits	9	(504,443)	-
Proceeds on disposal of property, plant and equipment	9	-	238,094
Interest income		4,705	7
Cash used in investing activities		(1,791,114)	(2,081,630)
FINANCING ACTIVITIES			
Proceeds from issuance of equity units, net of costs	20(a)	15,259,348	4,979,902
Proceeds from exercise of stock options	20(c)	83,000	-
Proceeds from exercise of warrants	20(b)	184,000	-
Proceeds from issuance of convertible debentures	19	-	2,513,300
Payment of principal portion of lease liabilities	17	(734,093)	(190,138)
Advances on secured bridge loan	14	3,659,415	12,963,804
Repayment of secured bridge loan	14	(7,234,881)	(9,531,968)
Proceeds from loan payable, net of transaction costs	14	16,989,258	-
Repayment of loan payable	14	(4,791,686)	(1,864,331)
Transaction costs	14	-	(125,270)
Repayment of promissory note	18	(1,614,438)	-
Cash provided by financing activities		21,799,923	8,745,299
Change in cash		2,166,293	(317,064)
Cash, beginning of the year		314,042	631,106
Cash, end of the year		2,480,335	314,042

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

Indiva Limited

Notes to the Consolidated Financial Statements

As at and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

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

These 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, 2021.

These Financial Statements were approved and authorized for issue by the Board of Directors on April 26, 2022.

(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. Recent outbreaks of COVID-19 variants across the globe continue to prolong the pandemic. 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

Indiva Limited**Notes to the Consolidated Financial Statements**

As at and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

operations. Furthermore, the Company's employees and contractors could be affected by COVID-19, which could result in a reduction in its workforce due to illness or quarantine which could result in the disruption of the Company's operations or hinder its ability to secure financing. The production and sale of cannabis in Canada was deemed an essential service throughout the year ended December 31, 2021. 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 on the Company's planned operations.

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 \$15,009,234 for the year ended December 31, 2021 (2020 – \$15,422,627), an accumulated deficit of \$56,246,046 as at December 31, 2021 (2020 – \$41,236,812), and negative cash flow from operations during the year ended December 31, 2021 of \$17,482,516 (2020 – negative cash flow from operations of \$6,980,733). 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, loan payable and convertible debenture repayments, and capital expenditures. Even if the Company has been successful in raising funds in the past, there is no assurance that it will manage to obtain financing in the future.

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 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.

Indiva Limited**Notes to the Consolidated Financial Statements**

As at and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

(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, 2021 were as follows:

Name of subsidiary	Place of incorporation	Ownership interest as at		Principal activity
		December 31, 2021	December 31, 2020	
Indiva Amalco Ltd.	Ontario	100%	100%	Holding company
Indiva Inc.	Ontario	100%	100%	Licensed Producer under Cannabis Act
2639177 Ontario Inc.	Ontario	100%	100%	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.

Indiva Limited**Notes to the Consolidated Financial Statements**

As at and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

(c) REVENUE

The Company recognizes revenue in accordance with *IFRS 15 Revenue from Contracts with Customers* ("IFRS 15"), which 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 is 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 includes cash in interest-bearing accounts with high credit quality financial institutions.

Indiva Limited**Notes to the Consolidated Financial Statements**

As at and for the years ended December 31, 2021 and 2020

(Expressed in Canadian dollars)

(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 ("OCI").

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

The Company has made the following classifications:

Financial Instrument	Classification
Cash	FVTPL
Accounts receivable	Amortized cost
Promissory note	Amortized cost
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

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.

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Measurement

All financial instruments are required to be measured at fair value on initial recognition, adjusted for, 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. All other financial assets including equity investments are measured at their fair values, 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 financial 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 Financial Instruments*. 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 issued by the Company (specifically the convertible debentures) 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

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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	5 to 40 years
Facility equipment	3 to 20 years
Office equipment and furniture	2 to 3 years
Vehicle	8 years
Right-of-use assets	1 to 7 years
Leasehold improvements	Remaining lease term

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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

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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 comprise genetics rights, which provide the Company with the right to use certain strains, and a license to manufacture Bhang chocolates. 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:

License	9 years, 5 months
Genetics	20 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 of disposal. 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.

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(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 had recognized an onerous contract liability for a contract where the unavoidable costs of meeting the contractual obligations exceeded 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 statements of 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.

(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 loss and comprehensive loss attributable to 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 loss and comprehensive loss attributable to 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.

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(n) SHARE-BASED COMPENSATION

The Company has a share-based compensation plan (the “Plan”) described in Note 20(c). Share-based compensation expense relates to stock options as well as cash and equity settled restricted share units (“RSUs”).

Cash and equity settled RSUs

The grant date fair values of equity settled RSUs is recognized as an expense, with a corresponding increase in contributed surplus in equity, over the vesting period. The amount recognized as an expense is based on the estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. Upon vesting of equity settled RSUs, the related contributed surplus associated with the RSU is reclassified into share capital.

For cash settled RSUs, the fair value of the RSUs is recognized as stock-based compensation expense, with a corresponding increase in accrued liabilities over the vesting period. The amount recognized as an expense is based on the estimate of the number of RSUs expected to vest. Cash settled RSUs are measured at their fair value at each reporting period on a mark-to-market basis. Upon vesting of the cash settled RSUs, the liability is reduced by the cash payout.

Where the Company has a choice to settle RSUs with cash or equity the Company will consider past practice, intent and ability to determine if the obligation will be settled in cash or equity and will account for the obligation accordingly.

Stock options

Compensation costs for options 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.

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(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 that 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 consolidated statements 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 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 consolidated statements 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.

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(q) INTERESTS IN 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 Investments in Associates and Joint Ventures*. 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 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 these 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.

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(t) ASSET ACQUISITIONS

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, 2021, the Company had operations in one geographic area, Canada.

(v) NEW STANDARDS ADOPTED IN THE CURRENT YEAR

The Company did not adopt new or amended standards in preparing these Financial Statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new and amended accounting standards are effective for annual periods beginning on or after January 1, 2022. The Company has not early adopted the new or amended standards in preparing these Financial Statements. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2022. The Company did not early adopt the amendment and it is not expected to have a material impact on the Company's consolidated financial statements.

Amendments to IAS 8: Definition of Accounting Estimates

In February 2021, IASB issued amendments to IAS 8 to replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment provides clarification to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. The Company is assessing the impact of adopting these amendments on its consolidated financial statements.

Amendments to IFRS 9: Financial Instruments

As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether

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the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The adoption of this amendment will not have a material impact on the consolidated financial statements.

Amendments to IAS 12: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment is effective for annual periods beginning on or after January 1, 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's Financial Statements.

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

The amendment specifies that the "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 did not early adopt the amendment and it is not expected to have a material impact 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).

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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.

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

Effective interest rate

In calculating the discounted contractual cash flow on the host debt component of the convertible debenture (Note 19), an estimate of the market interest rate of a similar debt instrument with no conversion features is used. In calculating the fair value of a loan payable (Note 14), a market interest rate is used to discount future cash flows. The market rate is estimated from the market interest rate on similar debt instruments.

Inventory net realizable value

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.

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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.

5. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2021 and 2020, consisted of the following:

	December 31, 2021	December 31, 2020
	\$	\$
Trade receivables	5,519,988	241,528
Trade receivables subject to factoring arrangement	-	4,313,280
Other receivables	-	1,016
Total accounts receivable	5,519,988	4,555,824

The Company has recognized an expected credit loss totalling \$6,135 related to accounts receivable for the year ended December 31, 2021 (2020 - \$143,189). Due to the short-term nature of trade receivables, the carrying value is considered to be the same as the fair value.

In the year ended December 31, 2021, the Company repaid all balances due to the lender and collected all outstanding receivables under the factoring arrangement. Prior to repayment, the Company transferred the receivables to the lender in exchange for cash and was prevented from selling or pledging the receivables; however, it retained late payment and credit risk. The Company therefore continued to recognise the transferred assets in their entirety in its consolidated statements of financial position. The amount repayable under the factoring agreement was included in factoring payable on the consolidated statements of financial position. The Company considered the held to collect business model appropriate for these receivables and accordingly measured them at amortized cost.

Indiva Limited**Notes to the Consolidated Financial Statements**

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6. INVENTORY

Inventory as at December 31, 2021 and 2020, consisted of the following:

	December 31, 2021	December 31, 2020
	\$	\$
<i>Dried cannabis</i>		
Finished goods	358,730	90,433
Work-in-process	1,418,753	1,027,171
<i>Cannabis extracts</i>		
Finished goods	1,230,120	1,622,765
Work-in-process	1,811,246	2,233,804
<i>Processing services</i>		
Finished goods	14,605	101,480
Work-in-process	310	21,732
Harvested cannabis trim	19,899	175,846
Packaging, supplies and other inventory	1,588,638	1,222,310
Total inventory	6,442,301	6,495,541

Inventory expensed to cost of goods sold during the year ended December 31, 2021 was \$14,795,620 (2020 – \$10,819,278). Cost of goods sold for the year ended December 31, 2021, also includes royalties, license fees, shipping, and other costs totaling \$7,726,113 (2020 – \$1,770,131). In the year ended December 31, 2021, the Company recorded inventory write-offs totalling \$2,573,012 where inventory carrying costs exceeded the net realizable value (2020 - \$2,338,245). The inventory write-offs for the year ended December 31, 2021 included disposal of product that did not meet the Company's quality standards, disposals and provisions for aged inventory and write-downs of dry flower harvested in the period at a cost that exceeded its net realizable value.

7. BIOLOGICAL ASSETS

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

	December 31, 2021	December 31, 2020
	\$	\$
Carrying amount, beginning of year	69,829	453,867
Production costs capitalized	374,795	1,074,437
Net change in fair value due to biological transformation		
less cost to sell	(140,772)	238,716
Transferred to inventory upon harvest	(303,852)	(1,697,191)
Carrying amount, end of year	-	69,829

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As at December 31, 2021, the Company did not have any biological assets growing for commercial production. All plants growing at December 31, 2021, were for research and development and the associated grow costs are included in operating expense on the consolidated statements of loss and comprehensive loss. The fair value of biological assets as at December 31, 2020, comprised of cannabis plants.

Any changes in estimates of fair value would not have had a material impact on the carrying value of the biological assets as at December 31, 2021 and 2020.

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2021	December 31, 2020
	\$	\$
Rent, security and utility deposits	9,053	78,469
Government of Canada surety bond	303,000	208,000
Other prepayments	337,958	329,713
Total prepaid expenses and deposits	650,011	616,182

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

During the year ended December 31, 2021, the Company wrote off non-refundable deposits totalling \$4,447 related to extraction equipment and facility upgrades (2020 - \$990,235). The Company is no longer proceeding with the planned implementation of an extraction line and has shifted resources to other production activities.

Indiva Limited
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9. PROPERTY, PLANT AND EQUIPMENT

Cost	Land	Building and building improvements	Leasehold improvements	Facility equipment	Vehicle	Office equipment and furniture	ROU assets	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance, January 1, 2020	252,275	14,534,705	-	3,861,677	74,665	448,103	979,954	20,151,379
Additions	-	400,332	62,546	498,972	-	14,378	542,841	1,519,069
Disposals	-	-	(1,100)	(1,016,602)	-	(16,515)	-	(1,034,217)
Transferred from assets in process	-	3,565,571	-	968,243	-	16,250	-	4,550,064
Transfer between categories	-	(164,319)	-	164,319	-	-	-	-
Balance, December 31, 2020	252,275	18,336,289	61,446	4,476,609	74,665	462,216	1,522,795	25,186,296
Additions	-	83,033	44,552	397,980	-	89,163	8,933	623,661
Disposals	-	-	(2,432)	(23,760)	(3,358)	(29,252)	-	(58,802)
Lease buy-out (Note 17)	-	-	-	207,520	-	-	(524,765)	(317,245)
Transfer between categories	-	37,500	(37,500)	-	-	-	-	-
Transferred from assets in process	-	320,880	-	285,049	-	-	-	605,929
Balance, December 31, 2021	252,275	18,777,702	66,066	5,343,398	71,307	522,127	1,006,963	26,039,838
Accumulated depreciation								
Balance, January 1, 2020	-	577,191	-	562,170	19,616	169,560	49,769	1,378,306
Depreciation for the year	-	406,634	1,386	512,871	9,804	95,108	252,167	1,277,970
Transfer between categories	-	(12,154)	-	12,154	-	-	-	-
Disposals	-	-	(202)	(146,782)	-	(3,005)	-	(149,989)
Balance, December 31, 2020	-	971,671	1,184	940,413	29,420	261,663	301,936	2,506,287
Depreciation for the year	-	495,116	3,817	539,127	9,357	79,856	375,508	1,502,780
Transfer between categories	-	(2,319)	2,319	-	-	-	-	-
Lease buy-out (Note 17)	-	-	-	-	-	-	(317,245)	(317,245)
Disposals	-	-	(2,432)	(14,873)	(2,142)	(29,015)	-	(48,462)
Balance, December 31, 2021	-	1,464,468	4,888	1,464,667	36,635	312,505	360,199	3,643,361
Carrying amounts as at:								
December 31, 2020	252,275	17,364,618	60,262	3,536,196	45,245	200,553	1,220,859	22,680,008
December 31, 2021	252,275	17,313,236	61,178	3,878,731	34,672	209,623	646,764	22,396,477

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As at December 31, 2021, \$50,123 of the cost of the Company's additions were included in accounts payable and accrued liabilities (2020 - \$70,265). In the year ended December 31, 2021, building, equipment and construction deposits totaling \$410,698 have been applied towards the cost of additions to property, plant and equipment and assets in process.

Total depreciation expense for the year ended December 31, 2021 was \$1,502,780 (2020 - \$1,277,971), of which \$1,225,777 (2020 - \$987,590) has been capitalized in the production of biological assets and inventory.

In the year ended December 31, 2021, the Company disposed of cultivation equipment and related computer hardware with an aggregate book value of \$10,340 (2020 - \$884,228), for proceeds of \$nil (2020 - \$238,094), resulting in a \$10,340 loss on disposal.

10. ASSETS IN PROCESS

	Building & building improvements	Facility equipment	Office equipment & furniture	Total
Cost	\$	\$	\$	\$
Balance, January 1, 2020	2,933,811	744,343	16,250	3,694,404
Additions	463,045	314,602	-	777,647
Disposals	179,379	-	-	179,379
Transfer between categories	(10,665)	10,665	-	-
Write-off	-	(88,161)	-	(88,161)
Transferred to PPE	(3,565,570)	(968,243)	(16,250)	(4,550,063)
Balance, December 31, 2020	-	13,206	-	13,205
Additions	327,555	325,577	3,375	656,507
Disposals	-	(3,921)	-	(3,921)
Transferred to PPE	(320,880)	(285,049)	-	(605,929)
Balance, December 31, 2021	6,675	49,813	3,375	59,863

Interest of \$nil was capitalized to building improvements during the year ended December 31, 2021, respectively (2020 - \$179,379).

During the year ended December 31, 2021, the Company wrote-off equipment totaling \$3,921 that did not meet the Company's standards. In the year ended December 31, 2020, the Company had write-offs totaling \$88,161 related to the setup of an extraction line which did not proceed as resources were shifted to other production activities.

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11. INTANGIBLE ASSETS

	Genetics	Bhang License	Total
Cost	\$	\$	\$
Balance, January 1, 2020	9,375	-	9,375
Additions	-	2,169,688	2,169,688
Disposals	(9,375)	-	(9,375)
Balance, December 31, 2020 and 2021	-	2,169,688	2,169,688
Accumulated amortization			
Balance, January 1, 2020	345	-	345
Amortization for the year	469	96,079	96,548
Balance, December 31, 2020	814	96,079	96,893
Amortization for the year	469	207,462	207,931
Disposals	(1,283)	-	(1,283)
Balance, December 31, 2021	-	303,541	303,541
Carrying amounts as at:			
Balance, December 31, 2020	8,561	2,073,609	2,082,170
Balance, December 31, 2021	-	1,866,147	1,866,147

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 on April 17, 2018. Bhang's interest in 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 two additional five-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 (Note 12). 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 was recorded at initial recognition in other liabilities on the consolidated statements of financial position. The minimum royalty payments have been discounted using an effective interest rate of 20.55%.

During the year ended December 31, 2021, the Company wrote-off intangible assets with a carrying value of \$8,092 related to genetics for cannabis strains the company had acquired in 2019 and will no longer use.

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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 was a private company, therefore no quoted market prices was available for its shares. Under the terms of the Amended License Agreement (Note 11) the joint venture agreement was cancelled in 2020 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.

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. The Company began producing and selling DeepCell branded products in late December 2021. Royalties related to sales in the year ended December 31, 2021 were not material.

14. LOAN PAYABLE AND FACTORING PAYABLE

On February 23, 2021, the Company closed a \$22,000,000 investment from Sundial Growers Inc. (“Sundial”) comprised of a brokered private placement of 25,000,000 common shares of the Company (the Sundial Subscription”) and a non-revolving term loan facility in the principal amount of \$11,000,000 (the “Sundial Loan” and, together with Sundial Subscription, the “Sundial Investment”). The total proceeds from the Sundial Investment were \$21,560,000 (net of a 4% discount on the principal amount of the Sundial Loan). The proceeds of the Sundial Investment were allocated as \$9,177,656 to the Sundial Loan and \$12,382,344 to the Sundial Subscription. The Company incurred \$971,945 in fees and commissions related to the Sundial Investment, \$596,972 of which related to the Sundial Subscription and \$374,973 related to the Sundial Loan. Of the transaction costs related to the Sundial Loan, \$296,473 were netted against the carrying amount of the liability which is amortized over the remaining term of the loan using the effective interest rate method. The remaining transaction costs totaling \$78,500 were recorded as an expense on the consolidated statements of loss and comprehensive loss. Interest was charged on the loan at a rate of 9% per annum. 50% of monthly accrued interest was payable on the last day of each month. The remaining 50% of accrued monthly interest was payable, at the option of the Company, either in cash on the last day of each month or payable in arrears on the maturity date. The loan matures on February 23, 2024.

The terms of the Sundial Loan are substantially changed from the previously outstanding loan payable and factoring payable facilities. Accordingly, the Company has accounted for the repayment of the preceding loan payable and factoring payable facilities as an extinguishment of those financial liabilities and recognized the Sundial Loan as a new financial liability measured net of transaction costs.

The Company has pledged as security on the Sundial Loan a general security agreement signed by the Company and its subsidiaries, share pledge agreements in all the shares of Indiva Amalco Ltd., Indiva Inc.,

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and Vieva Canada Ltd., a first ranking collateral charge in the principal amount over the real property owned by the Company, and an assignment of insurance proceeds on the property.

Pursuant to the Sundial Investment, the Company settled the previously outstanding 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. The unamortized transaction costs related to the preceding loan payable totaling \$45,276 were recorded in transaction costs on the consolidated statements of loss and comprehensive loss.

On October 4, 2021, the Company amended the terms of the Sundial Loan. Under the terms of the amendment, the Company received an additional advance totalling \$8,500,000. The interest rate on the total amount of principal and accrued interest outstanding on the facility was amended to 15% per annum with interest payable monthly and the loan maturing on February 23, 2024. The Company incurred transactions costs totaling \$346,924 related to the amendment, which are netted against the value of the liability and amortized over the loan term using the effective interest rate method.

On amendment, the contractual future cash flows of the Sundial Loan changed due to the change in payment terms and interest rate. Accordingly, the Company has recalculated the carrying amount of the liability based on the modified contractual cash flows, discounted by the effective rate of 17.42%. The Company has recorded a loss on modification totaling \$510,110 on the consolidated statements of loss and comprehensive loss.

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The following is a continuity of the loan payable:	\$
Advance received from bridging on October 11, 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
Interest charged on loan payable	101,178
Repayment of loan principal	(161,717)
Amortization of transaction costs	9,819
Transaction costs expensed on extinguishment	45,276
Final payment on settlement of loan payable	(4,731,147)
Balance of preceding loan payable, February 23, 2021	-
Sundial Loan at fair value	9,177,656
Additional proceeds on amendment	8,500,000
Loss on loan modification	510,110
Transaction costs	(688,398)
Interest charged on Sundial Loan	1,323,388
Payment of interest on Sundial Loan	(1,071,482)
Accretion of interest on loan discount	451,169
Amortization of transaction costs	125,086
Loan payable, December 31, 2021	18,327,529

15. DEFERRED REVENUE

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

Under the terms of the Dycar Agreement, the Company committed to guaranteed cash payments payable to Dycar over the term of the agreement and prior to the guaranteed sales date. Dycar committed to providing the Company an advance for manufacturing services payable at the beginning of each phase of the agreement and funding cannabis inputs used in Dycar products.

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. In February 2021, Dycar advanced an additional \$2,500,000 related to the second phase of the Dycar Agreement. The \$5,500,000 in advances received for Phases I and II of the agreement were 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.

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During the year ended December 31, 2020, the Company recognized a \$2,646,423 provision for onerous contract related to the guaranteed cash payments required by this agreement. The provision reflected assumptions the Company 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. In the year ended December 31, 2021, and prior to settlement, the Company recorded an increase of \$1,102,756 to the onerous contract provision to reflect the impact of amendments and updates to estimated sales during the term of the Dycar Agreement.

On September 30, 2021, the Company entered into a settlement and termination agreement with Dycar (the "Settlement Agreement"). Under the terms of the Settlement Agreement, the Company will make a payment to Dycar totalling \$8,380,959 to settle all matters between the parties and terminate the Dycar Agreement including the equipment lease (Note 17). The Company has recorded a loss on contract settlement totaling \$5,036,277 on the consolidated statements of loss and comprehensive loss. The loss on contract settlement includes legal costs totalling \$16,494 incurred by the Company related to the Settlement Agreement and the write-off of \$109,108 of packaging inventory the Company will no longer use as a result of ending the services.

Under the terms of the Settlement Agreement, the Company will provide Dycar with limited production services during a transition period ending on or before January 31, 2022. During the transition period, the Company will produce and fulfill purchase orders for Dycar product until provincial transitions are complete. On settlement, Dycar prepaid \$148,218 for fulfillment services during the transition period. As of December 31, 2021, \$4,025 is included in deferred revenue for fulfillment services based on fulfillment services expected to be earned to the end of the transition period. A portion of the prepayment totalling \$69,571 was reclassified to accounts payable and accrued liabilities for amounts that will not be earned and will be refunded at the end of the transition period.

The balance of deferred revenue comprises the following:

	\$
Advance on Phase 1 received from Dycar	3,000,000
Revenue recognized on sale of products	(637,436)
Deferred revenue, December 31, 2020	2,362,564
Advance on Phase 2 received from Dycar	2,500,000
Revenue recognized on sale of products	(970,512)
Unearned advances to be applied against settlement of Dycar agreement	(3,892,052)
Prepaid unit costs on transition	148,218
Prepaid unit costs not expected to be earned during transition period	(74,622)
Prepaid unit costs recognized on fulfillment of services	(69,571)
Deferred revenue, December 31, 2021	4,025

The Company's share of the revenue and expenses related to the joint arrangement was equal to the value of the manufacturing services as defined in the agreement and was recognized when the products were sold. In the year ended December 31, 2021, the Company recorded gross sales of \$1,144,091 (2020 - \$684,468) and cost of sales of \$824,128 (2020 - \$627,590) in the consolidated statements of loss and comprehensive loss, representing the Company's share of revenue and expenses in the periods.

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16. OTHER LIABILITIES

		December 31, 2021			December 31, 2020		
		Current	Long-term	Total	Current	Long-term	Total
		\$	\$	\$	\$	\$	\$
Equipment advances	(a)	-	-	-	51,275	-	51,275
Minimum royalties	(b)	156,780	731,393	888,173	162,215	734,788	897,003
Ending balance		156,780	731,393	888,173	213,490	734,788	948,278

(a) Under terms of the Dycar Agreement, Dycar provided the Company with an advance payment of \$600,000 on December 27, 2019, of which \$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, \$20,851 of which remained unspent on settlement of the agreement (Note 15) and was repaid to Dycar.

(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, 2021, interest accretion of \$171,172 was recorded to finance costs in the consolidated statements of loss and comprehensive loss (2020 - \$83,213). Minimum royalty payments began in January 2021.

17. LEASE LIABILITY

	Office and warehouse space	Office equipment	Facility equipment	Total
	\$	\$	\$	\$
Balance, January 1, 2020	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
Additions	-	-	8,933	8,933
Lease payments	(201,544)	(2,374)	(5,410)	(209,328)
Lease buy-out (Note 15)	-	-	(524,765)	(524,765)
Interest expense	77,636	510	84	78,230
Balance, December 31, 2021	687,255	6,444	20,826	714,525
Current, December 31, 2020	119,191	1,864	529,498	650,553
Non-current, December 31, 2020	691,972	6,444	12,486	710,902
Current, December 31, 2021	140,640	2,000	7,817	150,457
Non-current, December 31, 2021	546,619	4,444	13,006	564,069

During the year ended December 31, 2021, the Company recognized \$137,330 in variable lease payments included in general and administrative expenses on the consolidated statements of loss and comprehensive loss (2020 - \$102,406).

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At December 31, 2021, the Company's undiscounted amount of future minimum lease payments are as follows:

	< 1 Year	2 to 3 Years	4 – 5 Years	Total
	\$	\$	\$	\$
Office and warehouse space	(204,437)	(405,659)	(240,031)	(850,127)
Facility equipment	(8,297)	(11,613)	-	(19,910)
Office equipment	(2,375)	(4,748)	-	(7,123)
Minimum lease payments	(215,109)	(422,020)	(240,031)	(877,160)
Financing charges	63,685	79,181	19,769	162,635
Total lease liabilities	(151,424)	(342,839)	(220,262)	(714,525)

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 accrued on the outstanding balance at a rate of 15% per annum until the maturity date on January 15, 2021. The interest rate increased to 18% per annum on any balances not paid by the maturity date. The promissory note was 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, 2021, interest expense on the promissory note totalled \$38,395, included in finance costs on the consolidated statements of loss and comprehensive loss (December 31, 2020 - \$65,747). During the year ended December 31, 2021, amortization of legal costs totalling \$40,845 is included in transaction costs on the consolidated statements of loss and comprehensive loss (December 31, 2020 - \$13,615).

On February 23, 2021, the Company repaid the promissory note for \$1,614,438, representing accrued interest, the \$150,000 penalty fee applied on January 15, 2021, and principal on the date of repayment.

19. DERIVATIVE FINANCIAL INSTRUMENT AND CONVERTIBLE DEBENTURES**(a) 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

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financial position. On issuance, \$1,443,747 was recorded as a financial liability and \$648,453 was 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, 2021, debentures with an aggregate principal totaling \$60,000 (2020 - \$1,245,000) were converted by the holders into 300,000 common shares of the Company (2020 - 6,225,000 common shares). Upon conversion, a carrying value of \$46,817 (2020 - \$897,175) from convertible debentures and \$18,444 (2020 - \$381,714) from equity reserves was reclassified to share capital for the year ended December 31, 2021.

(b) 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 was recorded to reserves. The Company paid transaction costs in connection with the 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%.

During the year ended December 31, 2021, debentures issued in January 2020 with an aggregate principal totaling \$105,000 (2020 - \$225,000) were converted by the holders into 525,000 common shares of the Company (2020 - 1,275,000 common shares). On conversion, a carrying value of \$84,204 (2020 - \$182,373) from convertible debentures and \$26,267 (2020 - \$78,799) from equity reserves was reclassified to share capital.

(c) 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

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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 was 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%.

There were no conversions of the February 2020 convertible debentures in the years ended December 31, 2021 and 2020.

Convertible debentures consist of the following:

	Debt	Equity	Total
	\$	\$	\$
Balance, January 1, 2020	1,457,958	648,453	2,106,411
Proceeds on issuance, net of transaction costs	1,791,012	722,288	2,513,300
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)
Balance, December 31, 2020	2,442,153	910,228	3,352,381
Accretion interest on debenture discount	277,054	-	277,054
Accretion of transaction costs	11,384	-	11,384
Conversion to common shares	(131,021)	(44,711)	(175,732)
Balance, December 31, 2021	2,599,570	865,517	3,465,087
Current, December 31, 2021	701,158		
Long-term, December 31, 2021	1,898,412		

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A reconciliation of interest and accretion expense on the convertible debentures in the years ended December 31, 2021 and 2020, is as follows:

	2021	2020
	\$	\$
Accretion interest on debenture discount	277,167	261,802
Interest expense in the year	303,339	341,542
	580,506	603,344
<hr/>		
Total interest and accretion	580,506	603,344
Interest expenses capitalized in assets in process (Note 10)	-	(179,379)
Accretion and interest on convertible debentures expensed	580,506	423,965
<hr/>		
Interest expense payable, opening balance	153,868	11,794
Interest expense in the year	303,339	341,542
Interest expense paid in shares	(61,500)	(116,458)
Interest expense paid in cash	(395,707)	(83,010)
Interest expense included in accounts payable and accrued liabilities	-	153,868

On December 24, 2021, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of \$15,750 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 57,269 shares were issued, which includes 15,453 shares issued to related parties. The Company's common shares had a fair value of \$0.275 per share and accordingly a \$4,295 loss on issuance of shares was recorded in the consolidated statements of loss and comprehensive loss.

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 were issued, which includes 152,000 shares issued to related parties. The Company's common shares had a fair value of \$0.36 per share and accordingly a \$20,130 loss on issuance of shares was recorded in the consolidated statements of loss and comprehensive loss.

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.

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

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

As at December 31, 2021, a total of 146,150,202 (2020 – 109,555,952) common shares were issued and outstanding. No special shares have been issued or are outstanding.

Pursuant to the Sundial Investment, on February 23, 2021, the Company issued 25,000,000 common shares (Note 15).

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.

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.

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 were \$5,179,499 and the total number of units issued was 17,264,996. Each unit of the offering comprises 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.

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

	Warrants outstanding #	Weighted average exercise price \$
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
Issued	4,433,333	0.45
Expired	(383,169)	(0.95)
Exercised	(9,448,333)	(0.39)
Outstanding, December 31, 2021	12,842,271	0.42

During the year ended December 31, 2021, warrant holders exercised 9,448,333 warrants at an exercise price that ranged from \$0.30 to \$0.40 per share. A total of 9,448,333 common shares of the Company were issued pursuant to the exercise of the warrants for proceeds of \$3,730,667 including warrants exercised under the Company's warrant incentive program which was announced September 22, 2021, and expired on October 12, 2021. Under the terms of the incentive program, for each warrant exercised on or before October 12, 2021, the holder received at no additional cost, one-half of one newly issued common share purchase warrant with each whole incentive warrant exercisable into one common share at an exercise price of \$0.45. The incentive warrants expire five years from the issuance date. 8,866,666 of the warrants exercised were exercised under the incentive program for proceeds of \$3,546,666, \$2,417,514 of which is allocated to share capital and \$1,129,152 to reserves.

During the year ended December 31, 2021, 383,169 warrants with a value in reserves of \$999,079 expired (2020 – 24,851,860 warrants with a value of \$4,324,812). The value of expired warrants is recorded to contributed surplus on the expiration date.

All warrants outstanding as at December 31, 2021 are exercisable.

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.

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The following warrants remain outstanding as at December 31, 2021:

Warrant description	# of warrants	Expiry date	Exercise price
	#		\$
Rainmaker predecessor finders' warrants	29,942	04/27/2022	0.54
Warrants issued on June 25, 2020 equity offering	1,608,333	6/25/2023	0.40
Warrants issued on August 10, 2020 equity offering	6,694,997	8/10/2023	0.40
Warrants issued to brokers on August 10, 2020 equity Offering	75,666	8/10/2023	0.30
Incentive warrants	4,433,333	9/30/2026	0.45
Total warrants and weighted average exercise price	12,842,271		0.41

As at December 31, 2021, the warrants outstanding have a weighted average remaining life of 2.67 years.

Warrants issued and modified in the year ended December 31, 2021 and 2020 were valued using the Black-Scholes option pricing model using the following range of assumptions:

	December 31, 2021	December 31, 2020
Share price	\$0.425 - \$0.435	\$0.27 - \$0.285
Expected dividend yield	-	-
Volatility	163.43% - 163.72%	98.6% - 99.61%
Expected life	5.00 years	3.00 years
Risk-free rate	1.24% - 1.24%	0.26% - 0.32%

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. The plan was amended June 24, 2021, as an Omnibus Incentive Plan ("Omnibus Plan") which also allows for the issuance of RSUs.

During the year ended December 31, 2021, the Company recognized share-based compensation expense of \$530,115 (2020 - \$250,213) related to stock options and RSUs included in operating expenses in the consolidated statements of loss and comprehensive loss. Share-based compensation for the year ended December 31, 2021, totaling \$56,294 (2020 - \$nil) related to options issued to production employees is included in the cost of inventory.

The maximum number of common shares reserved for issuance under all share-based compensation arrangements of the Company may not exceed 10% of the Company's outstanding common shares. As at December 31, 2021, based on the Company's total common shares outstanding, a total of 14,615,020 (December 31, 2020 - 10,955,595) stock options and RSUs may be issued and outstanding. Based on this, the Company could grant up to 4,671,686 (December 31, 2020 - 3,102,262) additional stock options or RSUs beyond what was issued and outstanding as at December 31, 2021. TSXV approval is required to

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reserve the related common shares for issuance. A maximum of 2,500,000 RSUs may be issued under the plan.

i) RESTRICTED SHARE UNITS

On June 29, 2021, the Company granted 1,236,112 RSUs to officers and directors of the Company. Each RSU grant vests in accordance with the vesting schedule set for in the individual participant award agreement. The fair value of the RSUs on the grant date totalled \$432,639 or \$0.35 per RSU. 680,557 RSUs with a fair value of \$238,195 were issued to officers of the Company and vested immediately upon receipt of the final approval of the Omnibus Plan from the TSXV Exchange, which was received on July 12, 2021. These RSUs were issued to settle accrued bonuses from December 31, 2020 and were accounted for as cash settled. The obligation was settled on September 15, 2021, with the issuance of 325,093 common shares and \$124,413 payable in cash and recorded in accounts payable and accrued liabilities in the consolidated statements of financial position. 555,555 RSUs with a fair value of \$194,444 vested December 29, 2021, and were redeemed on the vesting date with the issuance of 555,555 common shares.

	Equity settled	Cash settled	Total
Outstanding, December 31, 2019, and 2020	-	-	-
Granted	555,555	680,557	1,236,112
Redeemed (including cash payments)	(555,555)	(680,557)	(1,236,112)
Outstanding, December 31, 2021	-	-	-

ii) STOCK OPTIONS

Unless otherwise determined by the Board of Directors, options issued under the plan vest over a three-year period except for options granted to consultants or persons employed in Investor Relations Activities (as defined in the policies of the exchange).

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

	Number of options #	Weighted average exercise price \$
Outstanding, January 1, 2020	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
Granted	4,170,000	0.34
Exercised	(200,000)	0.42
Forfeited	(1,563,333)	0.47
Outstanding, December 31, 2021	9,943,334	0.49

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On December 15, 2021, the Company approved the grant of 2,130,000 stock options to employees, directors, and consultants of the Company. The options are exercisable into common shares of the Company at a price of \$0.275 per common share. 1,880,000 of the options issued to employees and directors have a five-year term, which expires December 15, 2026, with one-third of the options vesting on each anniversary date of the grant over the three years following the grant date. 150,000 options were issued to a director of the Company and have a five-year term, which expires December 15, 2026, with 50,000 vesting immediately, and 50,000 vesting on each anniversary date of the grant over two years. 100,000 options were issued to consultants of the Company and have a two-year term expiring December 15, 2024, with 25% of the options vesting on each of April 12, 2021, July 12, 2022, October 12, 2022, and January 12, 2023.

On July 22, 2021, option holders exercised 200,000 options at an exercise price of \$0.415 per share. 200,000 common shares of the Company were issued pursuant to the exercise of the options for proceeds of \$83,000.

On June 7, 2021, the Company approved the grant of 1,190,000 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 7, 2026. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

On June 7, 2021, the Company granted 200,000 options to a consultant of the Company. The options vest immediately on the grant date, expire December 1, 2021, and are exercisable into common shares at an exercise price of \$0.415 per share.

On February 26, 2021, the Company granted 150,000 options to a director of the Company. 50,000 of the options vest immediately on the grant date and 50,000 vest on each anniversary date of the issuance over the following two years. The options expire February 26, 2026 and are exercisable into common shares at an exercise price of \$0.59 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 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 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

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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.

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

	Year ended December 31, 2021	Year ended December 31, 2020
Share price	\$0.275 - \$0.34	\$0.25 - \$0.34
Expected dividend yield	\$nil	\$nil
Volatility	84.27% - 147.8%	78.87% - 99.38%
Expected life (years)	1 to 4	3 to 4
Forfeiture rate	35%	29%
Risk-free rate	0.30 - 1.26%	0.27 - 1.07%

The following table presents information related to stock options as at December 31, 2021:

Weighted average exercise price	Number of Options	Vested	Weighted average remaining life (years)
\$0.27	2,130,000	50,000	5.58
\$0.30	572,500	249,168	3.67
\$0.40	3,816,500	1,184,966	4.02
\$0.45	200,000	200,000	2.07
\$0.59	150,000	50,000	4.16
\$0.75	2,211,000	2,211,000	1.11
\$0.80	643,334	543,333	1.15
\$0.87	220,000	220,000	2.01
\$0.49	9,943,334	4,708,467	3.00

The following table presents information related to stock options as 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

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21. OPERATING EXPENSES BY NATURE

	2021	2020
	\$	\$
Salaries and benefits	3,850,277	2,864,992
Marketing and sales	3,187,115	649,394
Licenses and permits	1,335,365	466,662
Professional fees	1,036,488	1,436,934
Insurance	567,668	407,876
Depreciation and amortization	484,934	386,930
Share-based compensation	473,821	250,213
Investor relations and public company costs	404,434	644,278
Rent, utilities and facility costs	266,885	207,684
Research and development material	244,337	-
Office, telecommunications and IT	223,295	73,605
Travel, meals and entertainment	163,852	92,374
Consulting fees	162,024	252,241
Pre-production costs	-	136,335
Total operating expenses	12,400,495	7,869,518

Cost of sales for the year ended December 31, 2021, includes \$1,135,047 of depreciation and amortization (2020 - \$943,750).

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:

	2021	2020
	#	#
Stock options	7,893,333	7,536,667
RSU	-	-
Warrants	12,842,271	18,272,576
Convertible debentures	13,450,000	14,275,000

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23. GROSS REVENUE

Gross revenue for the year ended December 31, 2021 and 2020, is disaggregated as follows:

	2021	2020
	\$	\$
Product sales	35,431,277	15,127,016
Sale of cannabis to other licensed producers	-	442,478
Tolling revenue	-	618,861
Total	35,431,277	16,188,355

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 (Notes 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.

As at the date of the transaction an asset value of \$1 was 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 was 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.

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

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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:

	2021	2020
	\$	\$
Taxes receivable	(181,209)	313,074
Accounts receivable	(970,299)	(4,137,692)
Biological assets	69,829	351,048
Inventory	(1,603,132)	452,512
Prepaid expenses and deposits	(38,276)	(358,424)
Accounts payable and accrued liabilities	(909,945)	21,075
Taxes payable	17,364	948,866
Other liabilities	(231,277)	(533,593)
Provision for onerous contract	(5,823,412)	-
Deferred revenue	(284,306)	2,362,564
Interest on loan payable and convertible debentures	-	309,846
License fee payable	-	518,598
Amounts receivable from joint venture	-	(120,588)
	(9,954,663)	127,286

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 the 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 year, \$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. In the year ended December 31, 2021, the Company did not apply for or receive any government grants.

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27. FINANCE COSTS

Finance costs consist of the following as at December 31, 2021 and 2020:

	2021	2020
	\$	\$
Interest on loan payable (Note 14)	1,424,566	828,687
Accretion of discount on loan payable (Note 14)	451,169	-
Interest on convertible debentures (Note 19)	303,339	341,542
Accretion on convertible debentures (Note 19)	277,054	261,802
Interest on other liabilities (Note 16)	171,172	82,213
Interest on factored invoices (Note 14)	148,061	252,576
Interest on promissory note (Note 18)	79,240	65,747
Interest on lease liabilities (Note 17)	78,230	90,425
Other interest and bank charges	(212,986)	276,867
Interest capitalized in assets in process (Note 19)	-	(179,379)
	<hr/> 2,719,845	<hr/> 2,020,480

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, accounts payable and accrued liabilities, settlement liability, other liabilities, loan payable, factoring payable, lease liabilities, and convertible debentures. The fair value of accounts receivable, accounts payable and accrued liabilities, and are equivalent to their carrying values given their short maturity period. 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 loan payable was recorded using the Company's effective interest rate and accordingly its' carrying values approximates the fair value on the issuance date. There has been no material change to the Company's overall effective interest rate as at December 31, 2021, and accordingly the fair value of the Company's long-term financial liabilities, comprising of convertible debentures, and loan payable approximates their carrying value as at December 31, 2021.

(a) FOREIGN CURRENCY RISK

As at December 31, 2021, the Company did not hold any cash denominated in a foreign currency (2020 - \$nil).

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(b) LIQUIDITY RISK

The Company's approach to managing liquidity is to review on an ongoing basis its capital requirements and 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, 2021	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 - 5 and thereafter
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	6,548,150	6,548,150	6,548,150	-	-
Taxes payable	1,028,691	1,028,691	1,028,691	-	-
Other liabilities	888,173	2,068,271	189,000	406,823	1,472,448
Loan payable	18,327,529	19,751,905	-	19,751,905	-
Lease liabilities	714,525	877,160	215,109	422,021	402,282
Convertible debentures	2,599,570	3,294,907	810,000	2,180,000	-
Total	30,106,638	33,569,084	8,790,950	22,760,749	1,874,730

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	-	-
Taxes 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

(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 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

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terms of 30 – 60 days. The Company has recorded an expected credit loss on accounts receivable as at December 31, 2021 totaling \$15,773 (2020 - \$27,798).

During the year ended December 31, 2021, the Company had gross sales of \$32,273,533 to three major customers (2020 - \$13,113,780). These customers each represented over 10% of the Company's total revenue for the year ended December 31, 2021. Total amounts receivable from these customers at December 31, 2021 was \$4,810,202 (December 31, 2020 - \$3,857,781).

As at December 31, 2021, the Company's aging of receivables was approximately as follows:

	December 31, 2021	Expected credit loss rate	December 31, 2020	Expected credit loss rate
	\$	%	\$	%
Current	5,216,327	0.1	4,399,739	0.1
61 – 120 Days	303,663	3.0	156,085	12.7
Greater than 121 Days	-	-	-	-
Total	5,519,990	0.3	4,555,824	0.5

(d) INTEREST RATE RISK

The interest rate on the factoring payable, loan payable, and convertible debenture is fixed and accordingly is not subject to interest rate risk.

30. FAIR VALUE MEASUREMENTS

As at December 31, 2021, the Company's cash balance of \$2,480,335 (December 31, 2020 - \$312,042) is the only financial instrument carried 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, 2021.

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.

Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. There was no movement between levels during the year. 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; and

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

	December 31, 2021			December 31, 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$
Cash	2,480,335	-	-	312,042	-	-
Total	2,480,335	-	-	312,042	-	-

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31. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of \$33,257,698 (December 31, 2020 – \$23,359,006), as shown below:

	December 31, 2021	December 31, 2020
	\$	\$
Total debt		
Factoring payable	-	3,575,466
Loan payable	18,327,529	4,736,591
Promissory note	-	1,385,198
Convertible debentures	2,599,570	2,442,153
Total debt	20,927,099	12,139,408
Total equity	12,330,599	11,219,598

The Company's primary objectives in managing its capital are to maintain sufficient levels of capital to facilitate 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.

32. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.5% (2020 - 26.5%) to income before taxes. The reasons for the differences are as follows:

	December 31, 2021	December 31, 2020
	\$	\$
Loss before taxes	(15,276,188)	(15,421,567)
Statutory tax rate	26.5%	26.5%
Expected tax benefit resulting from loss	(4,048,190)	(4,086,715)
Non-deductible expenses and other	156,290	15,320
Deductible temporary differences for which no deferred tax asset is recognized	3,624,951	4,072,455
Income tax expense (recovery)	(266,954)	1,060

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The unrecognized temporary differences of the Company are comprised of:

	December 31, 2021	December 31, 2020
	\$	\$
Non-capital loss carryforward	47,637,561	31,986,220
Intangible assets	(617,150)	-
Right of use liability	714,525	-
Inventory	2,525,081	-
Unamortized share issuance costs	2,010,019	60,037
Other deductible temporary differences	323,971	7,569,008
Total	52,594,007	39,615,264

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, 2021, are as follows:

	December 31, 2020	Recognized in net loss	Recognized in equity	December 31, 2021
	\$	\$	\$	\$
Deferred tax assets				
Non-capital losses carried forward	307,977	354,441	-	662,418
ROU liability	323,528	(323,528)	-	-
Unamortized share issuance costs	164,800	(322,467)	157,668	1
	796,305	(291,554)	157,668	662,419
Deferred tax liabilities				
ROU asset	(323,528)	152,135	-	(171,393)
Property, plant and equipment	(283,872)	108,259	-	(175,613)
Convertible debentures	(188,905)	298,114	(424,622)	(315,413)
	(796,305)	558,508	(424,622)	(662,419)
Net deferred tax	-	266,954	(266,954)	-

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, 2021 and 2020 have not been recognized in the consolidated financial statements.

As at December 31, 2021, the Company had non-capital loss carry forwards of approximately \$48,484,334 (2020 - \$31,986,220) that expire between 2036 and 2041.

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33. COMMITMENTS

In addition to the lease liability commitments disclosed in Note 17, 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. The annual minimum payments payable under these obligations are as follows:

	\$
Next 12 months	1,170,520
2 – 3 years	2,941
4 – 5 years	237
Thereafter	-
Total	1,173,698

Subsequent to December 31, 2021, the Company entered into commitments totalling \$2,432,586. These commitments are primarily comprised of production supplies, cannabis inputs, 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 spend 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.

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, 2021 and 2020, was as follows:

	2021	2020
	\$	\$
Short-term key management personnel compensation	1,094,413	1,102,012
Share-based payments	482,552	202,064
Directors' fees	52,500	22,500

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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 for the recovery of expenses related to marketing, pre-production costs, management, and administration prior to the effective date of the Amended License Agreement. The Bhang JV charged license fees to the Company totalling \$518,598 during the year ended December 31, 2020, related to licensed products manufactured and sold by the Company, 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, 2021, the Company settled interest payments in exchange for common shares in the Company. The debenture holders include certain related parties of the Company, including directors and officers of the Company. An aggregate of 51,815 common shares was issued to the related parties to settle interest owing to settle accrued interest totaling \$14,250.

Interest payments on convertible debentures held by related parties paid in cash during the year ended December 31, 2021, was \$64,250 (2020 - \$15,667).

36. SUBSEQUENT EVENTS

On February 1, 2022, the Company granted 2,260,497 restricted share units to directors and employees of the Company. The units vest one year from the grant date and have a fair value of \$0.30 per unit on the date of the grant.