INDIVA LIMITED

Condensed Consolidated Interim Financial Statements

(Unaudited, Expressed in Canadian dollars)

For the three months ended March 31, 2020 and 2019

Indiva Limited
Condensed Consolidated Interim Statements of Financial Position
(Unaudited, Expressed in Canadian dollars, except per share amounts)

As at	*Note*	March 31, 2020 $	December 31, 2019 $
ASSETS			
Current assets			
Cash		**1,055,704**	631,106
Taxes receivable		**115,551**	380,252
Accounts receivable	**5**	**1,857,898**	445,930
Inventory	**6**	**9,495,772**	8,343,843
Biological assets	**7**	**282,549**	453,867
Prepaid expenses and other	**8**	**592,284**	257,758
Total current assets		**13,399,758**	10,512,756
Other non-current assets			
Property, plant and equipment	**9**	**19,512,371**	18,773,075
Assets in process	**10**	**3,397,586**	3,694,404
Building, equipment and construction deposits		**1,239,782**	1,399,882
Intangible assets	**11**	**8,913**	9,030
Investment in joint venture	**12**	**1,591,212**	1,766,833
Equity investment		**1**	1
Promissory note		**1**	1
Prepaid royalties	**13**	**1,948,950**	1,948,950
Total assets		**41,098,574**	38,104,932
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**8,716,708**	9,413,077
Excise tax payable		**207,947**	62,461
Factoring payable	**14**	**647,215**	143,630
Other liabilities	**15**	**3,588,262**	584,870
Loan payable	**14**	**6,133,219**	6,232,998
Lease liability	**16**	**113,400**	103,929
Total current liabilities		**19,406,751**	16,540,965
Other non-current liabilities			
Lease liability	**16**	**789,934**	814,398
Convertible debentures	**17**	**3,329,955**	1,457,958
Total liabilities		**23,526,640**	18,813,321
Equity			
Share capital	**18**	**37,487,265**	37,487,265
Contributed surplus		**398,267**	398,267
Reserves		**7,958,253**	7,239,801
Accumulated other comprehensive loss		**(19,537)**	(19,537)
Accumulated deficit		**(28,252,314)**	(25,814,185)
Total equity		**17,571,934**	19,291,611
Total liabilities and equity		**41,098,574**	38,104,932

Going Concern (Note 3), Commitments (Note 26), and Subsequent Events (Note 31)

These condensed consolidated interim financial statements were approved by the Board of Directors of Indiva Limited on June 5, 2020.

N. Marotta   *J. Yersh*
Carmine (Niel) Marotta   James Yersh

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

Indiva Limited
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the three months ended March 31, 2020 and 2019
(Unaudited, Expressed in Canadian dollars, except per share amounts)

	Note	**March 31, 2020**	March 31, 2019
		$	$
Gross revenue	**20**	**2,264,847**	286,662
Excise taxes		**(251,556)**	(45,293)
Net revenue		**2,013,291**	241,369
Cost of goods sold		**(1,790,337)**	(405,335)
License fee	**20**	**(238,412)**	-
Write down of inventory to net realizable value	**6**	**(327,073)**	-
Gross margin before fair value adjustments		**(342,531)**	(163,966)
Fair value adjustment on sale of inventory		**(25,025)**	-
Unrealized fair value adjustment on biological assets	**7**	**149,860**	78,953
Gross margin		**(217,696)**	(85,013)
Operating expenses			
General and administrative		**1,487,294**	2,739,125
Marketing and sales		**280,210**	127,041
Research and development		**1,851**	45,325
Share-based compensation	**18(c)**	**(3,836)**	138,606
Depreciation of property, plant and equipment	**9**	**27,355**	134,675
Amortization of intangible assets	**11**	**117**	11,936
Total operating expenses		**1,792,991**	3,196,708
Loss from operations		**(2,010,687)**	(3,281,721)
Other income (expenses)			
Realized foreign exchange (loss) gain		**(22,038)**	5,439
Unrealized exchange gain (loss)	**12**	**119,900**	(40,017)
Interest and financing expenses		**(312,447)**	(2,310)
Accretion and interest on convertible debentures	**17**	**(3,731)**	(54,644)
Transaction costs		**(143,535)**	-
Interest income		**-**	89,969
Expected credit loss		**(115,391)**	(326,726)
Share of income from investment in joint venture	**12**	**49,800**	-
Loss on disposal of property, plant and equipment		**-**	(18,533)
Other income		**-**	62
Net loss and comprehensive loss attributable to shareholders		**(2,438,129)**	(3,628,481)
Loss per share, basic and diluted	**19**	**(0.03)**	(0.04)
Weighted average number of outstanding shares, basic and diluted	**19**	83,588,269	83,036,228

Indiva Limited

Condensed Consolidated Interim Statements of Changes in Equity

For the three months ended March 31, 2020 and 2019

(Unaudited, Expressed in Canadian dollars, except per share amounts)

		Share capital						
	Note	**Shares**	**Amount**	**Contributed surplus**	**Reserves**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Total**
		#	$	$	$	$	$	$
Balance, January 1, 2020		83,588,269	37,487,265	398,267	7,239,801	(25,814,185)	(19,537)	19,291,611
Stock based compensation	18 (c)	-	-	-	(3,836)	-	-	(3,836)
Equity portion of convertible debentures issued in 2020	17				722,288			722,288
Net loss for the period		-	-	-	-	(2,438,129)	-	(2,438,129)
Balance, March 31, 2020		**83,588,269**	**37,487,265**	**398,267**	**7,958,253**	**(28,252,314)**	**(19,537)**	**17,571,934**

		Share capital						
	Note	**Shares**	**Amount**	**Contributed surplus**	**Reserves**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Total**
		#	$	$	$	$	$	$
Balance, January 1, 2019		83,036,228	37,282,515	-	6,548,367	(14,416,291)	(19,537)	29,395,054
Stock based compensation	18(c)	-	-	-	138,606	-	-	138,606
Net loss for the period		-	-	-	-	(3,628,481)	-	(3,628,481)
Balance, March 31, 2019		**83,036,228**	**37,282,515**	**-**	**6,686,973**	**(18,044,772)**	**(19,537)**	**25,905,179**

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

Indiva Limited
Condensed Consolidated Interim Statements of Cash Flows
For the three months ended March 31, 2020 and 2019
(Unaudited, Expressed in Canadian dollars, except per share amounts)

	Note	March 31, 2020 $	March 31, 2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period		**(2,438,129)**	(3,628,481)
Adjustments to reconcile net loss to cash used in operating activities:			
Unrealized fair value adjustment on biological assets	**7**	**(149,860)**	(78,953)
Realized fair value adjustment on sale of inventory		**25,025**	-
Write-off of inventory to net realizable value	**6**	**327,073**	-
Depreciation and amortization	**9, 11**	**27,472**	146,611
Amortization of transaction costs on loan payable	**14**	**83,131**	-
Accretion of discount on convertible debenture	**17**	**54,398**	31,833
Accretion of transaction costs on convertible debentures	**17**	**2,087**	-
Interest accretion on lease liability	**16**	**23,671**	412
Share of income from investment in joint venture	**12**	**(49,800)**	-
Unrealized exchange loss (gain)	**12**	**(119,900)**	40,017
Stock-based compensation	**18(c)**	**(3,836)**	138,606
Loss on disposal of property, plant and equipment		**-**	18,533
Loss on promissory note		**-**	300,000
Expected credit loss		**115,391**	26,726
Interest income		**-**	(89,969)
Changes in non-cash operating working capital	**20**	**975,735**	(89,588)
Total cash outflows used in operating activities		**(1,127,542)**	(3,184,253)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	**9**	**(791,032)**	(1,021,516)
Interest capitalized in purchase of assets in process	**10**	**(135,926)**	(253,781)
Acquisition of assets in process	**10**	**(428,772)**	(6,825,067)
Change in building, equipment and construction deposits		**160,100**	96,768
Acquisition of intangible assets		**-**	(4,375)
Proceeds on disposal of equipment		**-**	1,000
Funds provided for promissory note		**-**	(300,000)
Interest received		**-**	89,969
Total cash outflows used in investing activities		**(1,195,630)**	(8,217,002)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of convertible debentures	**17**	**2,537,800**	-
Payment of principal portion of lease liabilities	**16**	**(38,664)**	(6,120)
Advances on secured bridge loan	**14**	**744,862**	-
Repayment of secured bridge loan		**(241,277)**	-
Repayment of loan payable	**14**	**(254,951)**	-
Total cash inflows from financing activities		**2,747,770**	(6,120)
Increase (decrease) in cash		**424,598**	(11,407,375)
Cash, beginning of period		**631,106**	19,565,606
Cash, end of period		**1,055,704**	8,158,231

Supplemental cash flow information is provided in Note 20

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

1. CORPORATE INFORMATION

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

On December 13, 2017, the Company completed a reverse takeover transaction, pursuant to which Indiva Corporation amalgamated with a wholly-owned subsidiary of the Company and was subsequently renamed Indiva Limited. The Company's common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol "NDVA" and the OTCQX under the symbol "NDVAF".

Its wholly-owned subsidiary, Indiva Inc. is a licensed producer of marijuana under the Cannabis Act and Cannabis Regulations (formerly Health Canada's *Access to Cannabis for Medical Purposes Regulations* "ACMPR"), in London, Ontario, focused on manufacturing derivative products and the cultivation of cannabis. The Company received the sales amendment to its licence on August 10, 2018 and its extracts, edibles and topicals amendment on January 31, 2020.

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

2. BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

These unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

These Interim Financial Statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019 (the "2019 Annual Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All figures presented in these Interim Financial Statements are reflected in Canadian dollars, which is also the functional currency of the Company and its subsidiaries. The Interim Financial Statements have been prepared using accounting policies consistent with those described in the 2019 Annual Financial Statements.

These Interim Financial Statements were approved and authorized for issue by the Board of Directors on June 5, 2020.

(b) COVID-19 Estimation Uncertainty

In March 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic. Government measures to limit the spread of COVID-19, including the closure of non-essential businesses, did not materially disrupt the Company's operations during the three months ended March 31, 2020. The production and sale of cannabis have been recognized as essential services across Canada. As at March 31, 2020, we have also not observed any material impairments of our assets or a significant change in the fair value of assets due to the COVID-19 pandemic.

Due to the rapid developments and uncertainty surrounding COVID-19, it is not possible to predict the impact that COVID-19 will have on our business, financial position and operating results in the future. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

3. GOING CONCERN

These Interim Financial Statements have been prepared on the basis of principles applicable to a going concern which assumes the Company will continue to meet its obligations and discharge its liabilities for the foreseeable future. The Company has incurred losses in the current and prior periods, with a net loss of $2,438,129 during the three month period ended March 31, 2020 (three months ended March 31, 2019 – net loss of $3,628,481), an accumulated deficit of $28,252,314 at March 31, 2020 (December 31, 2019 - $25,814,185), and negative cash flow from operations during the period ended March 31, 2020 of $1,127,542 (three months ended March 31, 2019 – net loss of $3,184,253). 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 Interim Financial Statements.

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

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. If the going concern assumption was not appropriate for these Interim 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. New standards

<u>New standards and interpretations adopted</u>

Amendment to IFRS 3 – Business Combinations

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

(Unaudited, Expressed in Canadian dollars, except per share amounts)

5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	March 31, 2020	December 31, 2019
	$	$
Trade receivables	**504,559**	261,583
Trade receivables subject to factoring arrangement	**1,352,016**	182,332
Other receivables	**1,323**	2,015
Total accounts receivable	**1,857,898**	445,930

The carrying amounts of the trade receivables include receivables which are subject to a factoring arrangement (Note 14).

The Company has not recognized any expected credit loss related to accounts receivable for the three months ended March 31, 2020 (March 31, 2019 - $nil).

6. INVENTORY

Inventory consisted of the following as at:

		March 31, 2020		December 31, 2019
	Capitalized cost	**Biological assets fair value adjustments**	**Total**	Total
	$	**$**	**$**	$
Dried cannabis				
Finished goods	**55,507**	**3,774**	**59,281**	117,032
Work-in-process	**552,740**	**247,324**	**800,064**	255,474
Cannabis extracts				
Finished goods	**1,188,246**	**-**	**1,188,246**	1,126,186
Work-in-process	**6,123,492**	**-**	**6,123,492**	6,122,626
Harvested cannabis trim	**245,000**	**-**	**245,000**	98,923
Packaging, supplies and other inventory	**1,079,689**	**-**	**1,079,689**	623,602
Total inventory	**9,244,674**	**251,098**	**9,495,772**	8,343,843

Inventory expensed to cost of sales during the three months ended March 31, 2020 was $1,725,795 (three months ended March 31, 2019 – $405,335). In the three months ended March 31, 2020, the Company recorded inventory write-offs totalling $327,073, where the carrying costs of inventory exceeded the net realizable value (three months ended March 31, 2019 - $nil).

(Unaudited, Expressed in Canadian dollars, except per share amounts)

7. BIOLOGICAL ASSETS

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

	March 31, 2020	December 31, 2019
	$	$
Carrying amount, beginning of period	**453,867**	-
Production costs capitalized	**383,713**	536,901
Net increase in fair value due to biological transformation less cost to sell	**149,860**	375,627
Plants sold prior to harvest	**-**	(4,308)
Transferred to inventory upon harvest	**(704,891)**	(454,353)
Carrying amount, end of period	**282,549**	**453,867**

As at March 31, 2020, the fair value of biological assets included $282,549 in cannabis plants (December 31, 2019 - $453,867). The significant estimates used in determining the fair value of cannabis plants are as follows:

- Yield by plant;
- Stage of growth estimated as the amount of time in growth stage compared to previous timelines for the same or comparable strains;
- Percentage of costs incurred for each stage of plant growth;
- Post-harvest costs calculated as the cost per gram of harvested cannabis to complete the sale of cannabis plants post-harvest, consisting of direct and indirect materials and labour related to processing, labelling, packaging and shipping;
- Wastage – represents the weighted average percentage of plants which are expected to fail to mature into cannabis plants that can be harvested; and
- Fair value selling price per gram less cost to complete and cost to sell.

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

(Unaudited, Expressed in Canadian dollars, except per share amounts)

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

Unobservable inputs	March 31, 2020, input values	December 31, 2019, input values	5% increase (decrease) in significant input as at March 31, 2020	5% increase (decrease) in significant input as at December 31, 2019
Average selling price Obtained through actual purchase and sale prices observed in the marketplace	\$5.16 - \$5.55 per gram	\$4.65 - \$5.41 per gram	\$25,000 increase (\$25,000 decrease)	\$29,000 increase (\$29,000 decrease)
Yield per plant Obtained through historical harvest cycle results on a per strain basis or where practicable actual harvest results used	29-33 grams per plant	23-34 grams per plant	\$14,000 increase (\$14,000 decrease)	\$23,000 increase (\$23,000 decrease)
Stage of growth Obtained through the estimates of stage of completion within the harvest cycle from historical harvest timelines	Average of 69% complete	Average of 59% complete	\$15,000 increase (\$14,000 decrease)	\$25,000 increase (\$22,000 decrease)
Post harvest costs include drying and curing, testing, post-harvest overhead allocation, packaging and labelling costs	\$2.34 per gram	\$1.14 per gram	\$11,000 decrease (\$11,000 increase)	\$7,000 decrease (\$7,000 increase)
Wastage Represents the average percentage of biological assets which are expected to fail to mature into cannabis plants that can be harvested	5%–6% dependent upon the strain	7%–9% dependent upon the strain	< \$1,000 decrease (< \$1,000 increase)	\$2,000 decrease (\$2,000 increase)

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

(Unaudited, Expressed in Canadian dollars, except per share amounts)

8. PREPAID EXPENSES AND OTHERS

	March 31, 2020	December 31, 2019
	$	$
Rent, security and utility deposits	**38,262**	38,293
Other prepayments	**554,022**	219,465
Total prepaid expenses and others	**592,284**	257,758

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

(Unaudited, Expressed in Canadian dollars, except per share amounts)

9. PROPERTY, PLANT AND EQUIPMENT

	Land $	Building and building improvements $	Leasehold improvements $	Facility equipment $	Vehicle $	Office equipment & furniture $	Right of use assets $	Total $
Cost								
Balance, January 1, 2019	-	-	4,357,289	1,164,398	74,702	236,783	-	5,833,172
Adoption of IFRS 16	-	-	-	-	-	-	25,742	25,742
Additions	252,275	6,332,873	51,100	1,218,762	2,213	115,418	954,212	8,926,853
Disposal on building purchase	-	(2,390)	-	(54,212)	(2,250)	(6,647)	-	(65,499)
Transferred from assets in process	-	3,795,834	-	1,532,729	-	102,549	-	5,431,112
Transfer between building improvements and leaseholds	-	4,408,389	(4,408,389)	-	-	-	-	-
Balance, December 31, 2019	252,275	14,534,706	-	3,861,677	74,665	448,103	979,954	20,151,380
Additions	-	6,518	-	122,793	-	8,322	-	137,633
Transferred from assets in process	-	680,837	-	161,493	-	-	-	842,330
Balance, March 31, 2020	**252,275**	**15,222,061**	**-**	**4,145,963**	**74,665**	**456,425**	**979,954**	**21,131,343**
Accumulated depreciation								
Balance, January 1, 2019	-	-	218,025	231,045	10,437	80,094	-	539,601
Depreciation for the year	-	334,132	25,034	331,124	9,179	89,466	49,769	838,704
Transfer between building improvements and leaseholds	-	243,059	(243,059)	-	-	-	-	-
Balance, December 31, 2019	-	577,191	-	562,169	19,616	169,560	49,769	1,378,305
Depreciation for the period	-	51,727		120,303	2,451	26,371	39,815	240,667
Balance, March 31, 2020	**-**	**628,918**	**-**	**682,472**	**22,067**	**195,931**	**89,584**	**1,618,972**
Carrying amounts as at:								
December 31, 2019	252,275	13,957,515	-	3,299,508	55,049	278,543	930,185	18,773,075
March 31, 2020	**252,275**	**14,593,143**	**-**	**3,463,491**	**52,598**	**260,494**	**890,370**	**19,512,371**

(Unaudited, Expressed in Canadian dollars, except per share amounts)

As at March 31, 2020, $12,702 of the cost of the Company's additions were included in accounts payable and accrued liabilities (December 31, 2019 - $666,101).

Total depreciation expense for the three months ended March 31, 2020 was $240,667 (three months ended March 31, 2019 - $128,735), of which $213,312 (three months ended March 31, 2019 - $nil) has been capitalized in the production of biological assets and inventory.

10. ASSETS IN PROCESS

	Building & building improvements	Leasehold improvements	Facility equipment	Office equipment & furniture	Total
	$	$	$	$	$
Cost					
Balance, January 1, 2019	-	3,875,806	5,938	102,549	3,984,293
Additions	2,111,776	962,906	1,256,362	16,250	4,347,294
Capitalized interest and accretion	834,425	-	-	-	834,425
Disposals	-	(40,496)	-	-	(40,496)
Transfer between categories	2,414,898	(3,429,670)	1,014,772	-	-
Transferred to PPE	(2,427,288)	(1,368,546)	(1,532,729)	(102,549)	(5,431,112)
Balance, December 31, 2019	2,933,811	-	744,343	16,250	3,694,404
Additions	138,075	-	271,511	-	409,586
Capitalized interest and accretion	135,926	-	-	-	135,926
Transferred to PPE	(680,837)	-	(161,493)	-	(842,330)
Balance, March 31, 2020	**2,526,975**	**-**	**854,361**	**16,250**	**3,397,586**

Interest of $135,926 was capitalized to building improvements during the three months ended March 31, 2020 (three months ended March 31, 2019 - $253,781).

As at March 31, 2020, $138,213 of the cost of the Company's additions were included in accounts payable and accrued liabilities (December 31, 2019 - $157,399).

(Unaudited, Expressed in Canadian dollars, except per share amounts)

11. INTANGIBLE ASSETS

	Lease buyout	Genetics	Book rights	Total
	$	$	$	$
Cost				
Balance, January 1, 2019	115,000	211,575	97,375	423,950
Additions	-	9,375	-	9,375
Disposal on building purchase	(115,000)	-	-	(115,000)
Impairment loss	-	(211,575)	(97,375)	(308,950)
Balance, December 31, 2019	-	9,375	-	9,375
Balance, March 31, 2020	**-**	**9,375**	**-**	**9,375**
Accumulated amortization				
Balance, January 1, 2019	70,288	2,575	4,869	77,732
Amortization for the year	3,486	10,924	9,738	24,148
Disposal on building purchase	(73,774)	-	-	(73,774)
Impairment loss	-	(13,154)	(14,607)	(27,761)
Balance, December 31, 2019	-	345	-	345
Amortization for the period	-	117	-	117
Balance, March 31, 2020	**-**	**462**	**-**	**462**
Carrying amounts as at:				
December 31, 2019	-	9,030	-	9,030
March 31, 2020	**-**	**8,913**	**-**	**8,913**

12. INVESTMENT IN JOINT VENTURE

The Company owns a 50% interest in 2639177 Ontario Inc. (the "Bhang JV"), a company incorporated in Ontario, under terms of a definitive joint venture agreement with Bhang Corporation. The joint venture is a private company therefore no quoted market prices are available for its shares.

The Company's net investment in the Bhang JV includes:

	March 31, 2020	December 31, 2019
	$	$
Opening balance	**1,766,833**	1,364,200
Change in amounts receivable for expenses paid on behalf of joint venture	**8,482**	887,424
Expected credit loss	**(115,391)**	(26,726)
Change in foreign exchange on loan to joint venture	**119,900**	(65,400)
License fees payable to joint venture	**(238,412)**	-
Share of income (loss) from joint venture	**49,800**	(392,665)
Ending balance	**1,591,212**	**1,766,833**

(Unaudited, Expressed in Canadian dollars, except per share amounts)

13. PREPAID ROYALTIES

On June 11, 2018, the Company prepaid CAD$1,948,950 (USD$1,500,000) to DeepCell Industries for future royalty fees for sales of DeepCell branded products, which are edible cannabis derivatives. This agreement has a term of five years. The prepaid royalties will be expensed on a per unit basis as the Company produces and sells DeepCell-licensed products. As at March 31, 2020, the Company did not produce DeepCell branded products.

14. LOAN PAYABLE AND FACTORING PAYABLE

On October 11, 2019, the Company entered into an agreement with an institutional lender for a $7,500,000 secured bridge loan (the "Secured Bridge Loan"), secured by eligible receivables, and a $6,500,000 secured demand loan facility (the "Demand Loan Facility") (together, the "Debt Facilities") at an interest rate of 9% above the Bank of Montreal prime rate, secured by the Company's assets, repayable within 12 months from the date of advance. At any given time, the combined outstanding balance of the Debt Facilities cannot exceed $11,000,000. Transaction costs totalling $348,725 have been capitalized and are amortized over the term of the loans.

As at March 31, 2020, the loan payable consists of the following:

	$
Total proceeds received from demand loan, October 11, 2019	**6,500,000**
Transaction costs	(348,725)
Total proceeds, net of transaction costs	6,151,275
Amortization of transaction costs	81,723
Loan payable, December 31, 2019	6,232,998
Interest charged	218,161
Repayment of loan principal	(254,951)
Repayment of interest on loan payable	(146,120)
Amortization of transaction costs	83,131
Loan payable, March 31, 2020	**6,133,219**

As at March 31, 2020, the Company owed $647,215 to the lender for receivables assigned under the Secured Bridge Loan (December 31, 2019 - $143,630). During the three month period ended March 31, 2020, the Company received advances on the Secured Bridge Loan of $744,862 (for the three months ended March 31, 2019 - $Nil), and the Company made repayments on the Secured Bridge Loan of $241,277 (for the three months ended March 31, 2019 - $Nil).

(Unaudited, Expressed in Canadian dollars, except per share amounts)

15. OTHER LIABILITIES

On February 18, 2020, the Company entered a manufacturing agreement with Dycar Pharmaceuticals Ltd. ("Dycar"). Under terms of the agreement Dycar provided the Company with an advance payment of $600,000 on December 27, 2019. $100,000 of the advance is for the procurement of production molds, $88,262 of which is included in other liabilities as at March 31, 2020 (December 31, 2019 - $584,870). $500,000 of the advance payment was provided to secure cannabis inputs for Dycar branded 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. Dycar committed to advancing an additional $4,500,000, subject to the Company achieving certain production targets.

16. LEASE LIABILITY

	Office space	**Equipment**	**Total**
	$	**$**	**$**
Balance, January 1, 2019	19,622	-	19,622
Additions	898,250	9,989	908,239
Lease payments	(23,412)	-	(23,412)
Interest expense	13,820	58	13,878
Balance, December 31, 2019	908,280	10,047	918,327
Lease payments	(38,070)	(594)	(38,664)
Interest expense	23,501	170	23,671
Balance, March 31, 2020	**893,711**	**9,623**	**903,334**
Current			**113,400**
Non-current			**789,934**

During the three months ended March 31, 2020, the Company recognized $3,427 in variable lease payments included in general and administrative expenses on the consolidated statements of net loss and comprehensive loss (for the three months ended March 31, 2019 - $14,744).

At March 31, 2020, the Company's future minimum lease payments are as follows:

	< 1 Year	2 to 3 Years	4 – 5 Years and thereafter	**Total**
	$	$	$	**$**
Office space	199,187	406,775	595,175	**1,201,137**
Equipment	2,374	4,748	4,155	**11,277**
Minimum lease payments	201,561	411,523	599,330	**1,212,414**
Financing charges	(88,161)	(135,230)	(85,689)	**(309,080)**
Total lease liabilities	**113,400**	**276,293**	**513,641**	**903,334**

17. CONVERTIBLE DEBENTURES

December 2019 Convertible Debentures

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

The convertible debentures are considered to be compound instruments comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 25.0%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the statement of financial position. The Company paid transaction costs in connection with issuance in the amount of $2,800 and legal costs of $20,000. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying amount of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.7%.

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 statement of financial position. The Company paid transaction costs in connection with issuance in the amount of $24,500 and legal costs of $1,200. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying amount of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.5%.

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.

(Unaudited, Expressed in Canadian dollars, except per share amounts)

The convertible debentures are considered to be compound instruments comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 22.5%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the statement of financial position. 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 amount of the financial liability will equal the principal balance at maturity using an effective interest rate of 22.3%.

Convertible debentures consist of the following:

	Debt	**Equity**	**Total**
	$	$	$
Balance, January 1, 2019	4,397,610	559,765	4,957,375
Accretion interest on debenture discount	436,672	-	436,672
Accretion of transaction costs	182,000	-	182,000
Repayment of debentures	(5,002,071)	(161,498)	(5,163,569)
Equity portion transferred to contributed surplus on repayment	-	(398,267)	(398,267)
Issued at amortized cost, net of transaction costs	1,443,747	648,453	2,092,200
Balance, December 31, 2019	1,457,958	648,453	2,121,411
Accretion interest on debenture discount	54,398	-	54,398
Accretion of transaction costs	2,087	-	2,087
Issued at amortized cost, net of transaction costs	1,815,512	722,288	2,537,800
Balance, March 31, 2020	**3,329,955**	**1,370,741**	**4,700,696**

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

	2020	2019
	$	$
Accretion interest on debenture discount	**54,398**	125,153
Accretion of transaction costs	**2,087**	54,522
Interest expense payable in cash	**83,172**	128,750
	139,657	308,425
Total interest and accretion	**139,657**	308,425
Interest expenses capitalized in assets in process	**(135,926)**	(253,781)
Accretion and interest on convertible debentures expensed	**3,731**	54,644
Interest expense payable in cash	**83,172**	128,750
Interest expense paid	**-**	-
Interest expense included in accounts payable and accrued liabilities	**83,172**	128,750

(Unaudited, Expressed in Canadian dollars, except per share amounts)

18. SHARE CAPITAL

(a) CAPITAL STOCK

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

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

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

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

No shares were issued during the three month period ended March 31, 2020.

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

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

	Warrants outstanding \#	Weighted average exercise price $
Outstanding, January 1, 2019	27,285,084	1.10
Expired/cancelled	(2,020,113)	0.75
Outstanding, December 31, 2019	25,264,971	1.08
Expired	(15,234,820)	1.28
Outstanding, March 31, 2020	**10,030,151**	**0.76**

All warrants outstanding as at March 31, 2020, are exercisable.

(Unaudited, Expressed in Canadian dollars, except per share amounts)

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

Warrant description	# of warrants	Expiry date	Exercise price
	#		$
RTO warrants on conversion of June 2017 derivative financial instrument	1,400,000	12/13/2020	0.75
RTO warrants issued on December equity transaction	8,029,896	12/13/2020	0.75
Rainmaker predecessor warrants	173,451	10/28/2020	1.09
Rainmaker predecessor finders' units	13,693	10/28/2020	1.09
Rainmaker predecessor warrants	265,234	05/27/2021	0.87
Rainmaker predecessor finders' units	19,326	05/27/2021	0.76
Rainmaker predecessor warrants	85,799	09/22/2021	1.25
Rainmaker predecessor finders' units	12,810	09/22/2021	0.98
Rainmaker predecessor finders' warrants	29,942	04/27/2022	0.54
Total warrants and weighted average exercise price	**10,030,151**		**0.76**

As at March 31, 2020, the warrants outstanding have a weighted average remaining life of 0.73 years.

There were no warrants issued during the three months ended March 31, 2020 . Warrants modified in the year ended December 31, 2019 were valued using the Black-Scholes option pricing model using the following range of assumptions:

	March 31, 2020	December 31, 2019
Share price	-	$0.18
Expected dividend yield	-	-
Volatility	-	84.75%
Expected life	-	1.00 years
Forfeiture rate	-	-
Risk-free rate	-	1.57%

(c) SHARE BASED COMPENSATION

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

As at March 31, 2020, based on the Company's total common shares outstanding, a total of 8,358,827 (December 31, 2019 - 8,358,827) stock options may be issued and outstanding. Based on this, the Company could grant up to 1,471,327 (December 31, 2019 – 3,607,827) additional stock options beyond what was issued and outstanding as at March 31, 2020. TSXV approval is required to reserve the related common shares for issuance. Unless otherwise determined by the Board, options issued under the plan vest over a three-year period except for options granted to consultants or persons employed in Investor Relations Activities (as defined in the policies of the Exchange).

(Unaudited, Expressed in Canadian dollars, except per share amounts)

Stock option activity for the equity compensation plan for the year ending March 31, 2020, was as follows:

	Number of options	Weighted average exercise price
	#	$
Outstanding, January 1, 2019	4,278,315	0.78
Granted	1,151,000	0.79
Expired	(133,315)	0.91
Forfeited	(545,000)	0.77
Outstanding, December 31, 2019	4,751,000	0.77
Granted	3,069,833	0.40
Forfeited	(890,000)	0.75
Outstanding, March 31, 2020	**6,930,833**	**0.61**

During the three months ended March 31, 2020, the Company recognized a recovery of $3,836 (three months ended March 31, 2019 – expense of $138,606) of share-based compensation related to stock options included in operating expenses. The recovery is a result of actual forfeitures in the three month period resulting in reversal of stock based compensation previously recognized in excess of stock based compensation recognized in the same period for current period and prior period grants.

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

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

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

The grant date fair value is calculated using the Black-Scholes pricing model and the below inputs. Expected volatility is based on the share price volatility of five comparable publicly traded companies from within the same industry. The exercise price used in the pricing model is that of the respective option granted. The outstanding options as at March 31, 2020, have a weighted average remaining contractual life of 3.89 years (December 31, 2019 – 3.32 years).

(Unaudited, Expressed in Canadian dollars, except per share amounts)

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

	March 31, 2020	**2019**
Share price	**$0.30**	$0.48
Expected dividend yield	**Nil**	nil
Volatility	**78.87%**	56.03% to 87.17%
Expected life (years)	**3 to 4**	2 to 5
Forfeiture rate	**31%**	30%
Risk-free rate	**1.07%**	1.34% to 1.55%

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

Weighted average exercise price	**Number of options**	**Vested**	**Weighted average remaining life (years)**
$0.40	3,034,833	-	4.89
$0.75	2,451,000	1,947,671	1.26
$0.80	1,210,000	340,002	3.75
$0.87	235,000	190,001	2.90
Balance as at March 31, 2020	**6,930,833**	**2,477,674**	**3.89**

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

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

19. LOSS PER SHARE

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

	2020	2019
Stock options	**6,930,833**	4,233,315
Warrants	**10,030,151**	27,285,084
Convertible debentures	**21,775,000**	6,866,667

(Unaudited, Expressed in Canadian dollars, except per share amounts)

20. GROSS REVENUE

Gross revenue for the three months ended March 31, 2020, and 2019, are disaggregated as follows:

	2020	2019
	$	$
Product sales	**2,011,087**	286,662
Tolling revenue	**253,760**	-
Total	**2,264,847**	286,662

During the three months ended March 31, 2020, the Company had gross revenue totalling $1,827,534 related to the sale of Bhang licensed products (three months ended March 31, 2019 - $nil). The joint venture holds the license agreement for these products. A license fee is paid by the Company to the joint venture in the amount of the gross margin of these products. The gross margin is equal to the gross revenue less excise tax and cost of sales. For the three months ended March 31, 2020, the license fee payable to the joint venture totalled $238,412 (for the three months ended March 31, 2019 - $Nil).

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

21. SUPPLEMENTAL CASH FLOWS

Changes in non-cash working capital for the three months ended March 31, were as follows:

	2020	2019
	$	$
Changes in non-cash working capital impacting cash flows from operating activities were as follows:		
Taxes receivable	**264,701**	(177,507)
Accounts receivable	**(1,411,968)**	(318,565)
Biological assets	**283,589**	(44,066)
Inventory	**(1,253,126)**	(284,986)
Prepaid expenses	**(334,526)**	556,791
Accounts payable and accrued liabilities	**(106,956)**	155,934
Excise tax payable	**145,486**	-
Other liabilities	**3,003,392**	-
Interest on loan payable and convertible debentures	**155,213**	22,811
License fee payable	**238,412**	-
Amounts receivable from joint venture	**(8,482)**	-
	975,735	(89,588)

22. SEGMENTED INFORMATION

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

23. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash, accounts receivable, promissory note, loan receivable from joint venture, accounts payable and accrued liabilities, other liabilities, loan payable, factoring payable, and convertible debentures. The fair value of cash, accounts receivable, accounts payable and accrued liabilities, other liabilities, and factoring payable are equivalent to their carrying values given their short maturity period. The loan receivable from joint venture is due on demand and its carrying value approximates its carrying value. The loan payable has a maturity of one year and a variable interest rate and accordingly its carrying values approximates the fair value. The Company's overall risk profile has not materially changed since the issuance of convertible debentures and accordingly the fair value of these financial instruments approximates their carrying value as at March 31, 2020.

(a) Foreign currency risk

As at March 31, 2020, the Company held $3,054 in a foreign currency (December 31, 2019 – US $nil). Included in the net investment in joint venture, is a loan to Bhang JV denominated in US dollars, in the amount of $1,000,000 USD. A 10% strengthening or weakening in the U.S. dollar against the Canadian dollar on this loan would result in a decrease or increase of approximately $142,170 in unrealized foreign exchange gain (loss) for the three months ended March 31, 2020.

(b) Liquidity risk

The Company's approach to managing liquidity is to maintain sufficient liquidity to meet its liabilities when they become due.

In addition to the commitments disclosed in Note 26, the Company is obligated to the following contractual maturities of undiscounted cash flows, net of interest payments:

As at March 31, 2020	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 -5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	8,716,708	8,716,708	8,716,708	-	-
Excise tax payable	207,947	207,947	207,947	-	-
Factoring payable	647,215	647,215	647,215	-	-
Other liabilities	3,588,262	3,588,262	3,588,262	-	-
Loan payable	6,133,219	6,133,219	6,133,219	-	-
Lease liabilities	903,334	1,212,415	201,562	411,523	599,330
Convertible debentures	3,329,955	4,655,000	-	4,655,000	-
Total	**23,526,640**	**25,160,766**	**19,494,913**	**5,066,523**	**599,330**

(Unaudited, Expressed in Canadian dollars, except per share amounts)

As at December 31, 2019	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 -5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	9,554,707	9,664,735	9,664,735	-	-
Excise tax payable	62,461	62,461	62,461	-	-
Loan payable	6,232,998	6,500,000	6,500,000	-	-
Factoring payable	143,630	143,630	143,630	-	-
Lease liabilities	918,327	1,535,259	258,564	519,753	756,879
Convertible debentures	1,457,958	2,115,000	-	2,115,000	-
Total	**18,370,081**	**20,021,085**	**16,629,390**	**2,634,753**	**756,879**

(c) Credit risk

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

The investment in joint venture includes a loan receivable from joint venture, which has a gross value of $1,421,700 ($1,000,000 USD) and amounts receivable related to expenses paid on behalf of the joint venture totalling $895,907. The Company has recorded an expected credit loss of $142,117 on these amounts as of March 31, 2020 (December 31, 2019 - $26,726). The expected credit loss for this asset is measured at an amount equal to the 12 month expected credit losses as management has deemed the credit risk related to this instrument has not increased significantly since initial recognition.

The credit risk related to the promissory note is carried at a gross value of $1 with an expected credit loss of $nil as of March 31, 2020. The expected credit loss for this asset is measured at an amount equal to the 12 month expected credit losses as management has deemed the credit risk related to this instrument has not increased significantly since initial recognition. Management has considered weighted average probabilities including no credit loss situations up to full loan forfeiture taking into account industry and macroeconomic factors. No changes have been made in how this estimate is determined in the current reporting period.

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

The Company has assessed that it has limited customer credit risk due to the fact that accounts receivable are primarily from the sale of cannabis to government agencies and large retail outlets and have payment terms of 30 – 60 days. Accordingly, no expected credit loss is recorded on accounts receivable as at March 31, 2020 (December 31, 2019 - $nil).

During the three months ended March 31, 2020, the Company earned a total gross revenue of $1,758,931 from two major customers (three months ended March 31, 2019 – $285,312 from one customer). These customers each had revenues of over 10% of the Company's total revenue for the three months ended

(Unaudited, Expressed in Canadian dollars, except per share amounts)

March 31, 2020. Total amounts receivable owing from these customers at March 31, 2020, was $1,475,509 (December 31, 2019 - $284,906).

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

	March 31, 2020	December 31, 2019
	$	$
Current	1,854,113	443,943
61 – 120 days	-	-
Greater than 121 days	3,785	1,987
Total	**1,857,898**	**445,930**

(d) Interest rate risk

The Company has exposure to interest rate risk related to the outstanding balance of the loan payable. The fluctuation of the interest rate may result in a material increase to the associated interest. A 100 basis point increase or decrease in benchmark interest rates would result in a $15,500 increase or decrease in interest expense for the three months ending March 31, 2020. The interest rate on the convertible debenture is fixed and accordingly is not subject to interest rate risk.

24. FAIR VALUE MEASUREMENTS

As at March 31, 2020, the Company's cash balance of $1,055,704 (December 31, 2019 - $631,106) is the only financial instrument recorded at fair value. Cash is classified as a Level 1 financial instrument.

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

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

Fair-value hierarchy

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. Cash a Level 1. There was no movement between levels during the period. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data
Level 3 – inputs for assets and liabilities not based upon observable market data

	March 31, 2020			December 31, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
	$	**$**	**$**	$	$	$
Cash	**1,055,704**	**-**	**-**	631,106	-	-
Total	**1,055,704**	**-**	**-**	631,106	**-**	**-**

(Unaudited, Expressed in Canadian dollars, except per share amounts)

25. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of $27,682,323 (December 31, 2019 – $27,126,197), as shown below:

	March 31, 2020	December 31, 2019
	$	$
Total Debt		
Loan payable	6,133,219	6,232,998
Factoring payable	647,215	143,630
Convertible debentures	3,329,955	1,457,958
Total Debt	**10,110,389**	**7,834,586**
Total Equity	**17,571,934**	**19,291,611**

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

The Company's primary objectives in managing its capital are to maintain sufficient levels of capital to ramp up production and sales at the London, Ontario, facility, as well as to cover general operating expenditures and sustain future development of the business. The Company achieves its objectives by allocating capital in accordance with management's strategies and periodically raising capital from through debt or equity.

26. COMMITMENTS

The Company has contractual obligations for leases of production and office space under leases with terms of less than 1 year. The Company also has contractual obligations for contractors, consultants, IT services, facility services and equipment and construction costs with terms remaining of up to three years.

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

	< 1 Year	1 to 5 Years	> 5 Years	**Total**
	$	$	$	**$**
Minimum lease payments and variable charges	282,772	1,116,703	95,288	**1,494,763**
Other commitments	1,191,941	113,386	-	**1,305,327**
Total	**1,474,713**	**1,230,089**	**95,288**	**2,800,090**

Subsequent to March 31, 2020, the Company entered into commitments totalling $3,224,303. These commitments are primarily comprised of IT and marketing services, and production supplies.

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.

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.

(Unaudited, Expressed in Canadian dollars, except per share amounts)

27. KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Company are the members of the Company's executive management team and Board of Directors. As a group they control approximately 14.37% of the outstanding shares of the Company as at March 31, 2020 (December 31, 2019 – 14.32%).

Key management personnel compensation for the three months ending March 31, 2020, and 2019:

	2020	2019
	$	$
Short-term key management personnel compensation	**255,000**	222,550
Share-based payments	**43,693**	89,460
Termination payments	**-**	480,000
Directors' fees	**5,625**	5,625

28. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with the Bhang JV. During the three months ended March 31, 2020, the Company invoiced the Bhang JV $136,563 (three months ended March 31, 2019 - $nil) for the recovery of expenses related to marketing, pre-production costs, management, and administration (Note 12). The Bhang JV charged license fees to the Company totalling $238,412 related to licensed products manufactured and sold by the Company during the three months ended March 31, 2020 (three months ended March 31, 2019 - $nil).

29. INCOME TAXES

There have been no material changes to income tax matters during the three months ended March 31, 2020. The Company is subject to income tax at a statutory tax rate of 26.5%. During the three months ended March 31, 2020, there were no material changes to statutory tax rates.

30. COMPARATIVE FIGURES

Certain comparative amounts in these Interim Financial Statements have been re-classified as a result of a change in presentation of certain expenses on a functional basis during the current year. The Company notes no material changes have been made to any of these figures other than classifications within operating expenses.

31. SUBSEQUENT EVENTS

Subsequent to March 31, 2020, debenture holders converted $1,275,000 of principal on the convertible debentures into 6,375,000 common shares of the Company. Accrued interest payable on the date of conversion to debentures holders is $47,958.

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.