# INDIVA LIMITED

## Condensed Consolidated Interim Financial Statements

(Unaudited, Expressed in Canadian dollars)

## For the three and six months ended June 30, 2020 and 2019

**Indiva Limited**

**Condensed Consolidated Interim Statements of Financial Position**

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

| As at | Note | June 30, 2020<br>$ | December 31, 2019<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **409,011** | 631,106 |
| Taxes receivable | | **22,085** | 380,252 |
| Accounts receivable | **5** | **1,108,521** | 445,930 |
| Inventory | **6** | **10,362,089** | 8,343,843 |
| Biological assets | **7** | **196,051** | 453,867 |
| Prepaid expenses and other | **8** | **517,077** | 257,758 |
| **Total current assets** | | **12,614,834** | 10,512,756 |
| **Other non-current assets** | | | |
| Property, plant and equipment | **9** | **21,787,333** | 18,773,075 |
| Assets in process | **10** | **672,516** | 3,694,404 |
| Building, equipment and construction deposits | | **1,716,780** | 1,399,882 |
| Intangible assets | **11** | **8,795** | 9,030 |
| Investment in joint venture | **12** | **1,445,149** | 1,766,833 |
| Equity investment | | **1** | 1 |
| Promissory note | | **1** | 1 |
| Prepaid royalties | **13** | **1,948,950** | 1,948,950 |
| **Total assets** | | **40,194,359** | 38,104,932 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **10,039,822** | 9,413,077 |
| Excise tax payable | | **294,439** | 62,461 |
| Factoring payable | **14** | **379,747** | 143,630 |
| Deferred revenue | **15** | **2,911,788** | - |
| Other liabilities | **16** | **84,870** | 584,870 |
| Loan payable | **14** | **5,621,321** | 6,232,998 |
| Lease liability | **17** | **117,206** | 103,929 |
| **Total current liabilities** | | **19,449,193** | 16,540,965 |
| **Other non-current liabilities** | | | |
| Other liabilities | **16** | **414,000** | - |
| Lease liability | **17** | **758,974** | 814,398 |
| Convertible debentures | **18** | **2,453,912** | 1,457,958 |
| **Total liabilities** | | **23,076,079** | 18,813,321 |
| **Equity** | | | |
| Share capital | **19** | **39,501,441** | 37,487,265 |
| Contributed surplus | | **398,267** | 398,267 |
| Reserves | | **8,019,135** | 7,239,801 |
| Accumulated other comprehensive loss | | **(19,537)** | (19,537) |
| Accumulated deficit | | **(30,781,026)** | (25,814,185) |
| **Total equity** | | **17,118,280** | 19,291,611 |
| **Total liabilities and equity** | | **40,194,359** | 38,104,932 |

Going Concern (Note 3), Commitments (Note 27), and Subsequent Events (Note 32)

These condensed consolidated interim financial statements were approved by the Board of Directors of Indiva Limited on August 31, 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 and six months ended June 30, 2020 and 2019

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

| | *Note* | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| | | **$** | $ | **$** | $ |
| Gross revenue | **21** | **2,826,487** | 205,753 | **5,091,334** | 492,415 |
| Excise taxes | | **(266,783)** | (32,253) | **(518,339)** | (77,546) |
| **Net revenue** | | **2,559,704** | 173,500 | **4,572,995** | 414,869 |
| Cost of goods sold | | **(2,259,126)** | (127,214) | **(4,049,463)** | (532,549) |
| License fee | **21** | **(279,100)** | - | **(517,512)** | - |
| Write down of inventory to net realizable value | **6** | **-** | - | **(327,073)** | - |
| **Gross margin before fair value adjustments** | | **21,478** | 46,286 | **(321,053)** | (117,680) |
| Fair value adjustment on sale of inventory | | **(41,943)** | (50,608) | **(66,968)** | (50,608) |
| Unrealized fair value adjustment on biological assets | **7** | **113,282** | 9,130 | **263,142** | 88,083 |
| **Gross margin** | | **92,817** | 4,808 | **(124,879)** | (80,205) |
| **Operating expenses** | | | | | |
| General and administrative | | **1,178,914** | 1,437,342 | **2,666,207** | 3,815,905 |
| Marketing and sales | | **229,932** | 413,825 | **510,142** | 925,828 |
| Research and development | | **1,065** | 49,329 | **2,916** | 94,665 |
| Share-based compensation | **19(c)** | **115,455** | 228,365 | **111,619** | 366,971 |
| Depreciation of property, plant and equipment | **9** | **61,433** | 161,707 | **88,788** | 290,442 |
| Amortization of intangible assets | **11** | **118** | 7,568 | **235** | 19,504 |
| **Total operating expenses** | | **1,586,917** | 2,298,136 | **3,379,907** | 5,513,315 |
| **Loss from operations** | | **(1,494,100)** | (2,293,328) | **(3,504,786)** | (5,593,520) |
| **Other income (expenses)** | | | | | |
| Realized foreign exchange loss | | **(1,158)** | (19,577) | **(23,196)** | (14,138) |
| Unrealized exchange gain (loss) | **12** | **(55,900)** | (15,483) | **64,000** | (55,500) |
| Interest and financing expenses | | **(365,196)** | (469) | **(677,643)** | (2,679) |
| Accretion and interest on convertible debentures | **18** | **(132,781)** | (18,102) | **(136,512)** | (72,846) |
| Transaction costs | | **(46,585)** | - | **(190,120)** | - |
| Interest income | | **-** | 44,464 | **-** | 134,433 |
| Expected credit loss | | **-** | - | **(115,391)** | (326,726) |
| Share of income from investment in joint venture | **12** | **89,039** | - | **138,839** | - |
| Loss on disposal of equipment | **9** | **(522,032)** | - | **(522,032)** | - |
| **Net loss and comprehensive loss attributable to shareholders** | | **(2,528,713)** | (2,302,495) | **(4,966,841)** | (5,930,976) |
| **Loss per share, basic and diluted** | **20** | **(0.03)** | (0.03) | **(0.06)** | (0.07) |
| **Weighted average number of outstanding shares, basic and diluted** | **20** | **86,914,311** | 83,036,228 | **85,466,414** | 83,036,228 |

**Indiva Limited**
**Condensed Consolidated Interim Statements of Changes in Equity**
For the three and six months ended June 30, 2020 and 2019
(Unaudited, Expressed in Canadian dollars, except per share amounts)

| | Note | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 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 | 19 (c) | - | - | - | 111,619 | - | - | 111,619 |
| Equity portion of convertible debentures issued in 2020 | 18 | | | | 722,288 | | | 722,288 |
| Conversion of convertible debentures | 18 | 6,625,000 | 1,358,980 | - | (406,677) | - | - | 952,303 |
| Equity units issued with purchase warrants | 19 (a) | 3,374,333 | 660,196 | - | 352,104 | - | - | 1,012,300 |
| Share issuance costs | | - | (5,000) | - | - | - | - | (5,000) |
| Net loss and comprehensive loss for the period | | - | - | - | - | (4,966,841) | - | (4,966,841) |
| **Balance, June 30, 2020** | | **93,587,602** | **39,501,441** | **398,267** | **8,019,135** | **(30,781,841)** | **(19,537)** | **17,118,280** |

| | Note | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Shares | Amount | Contributed surplus | Reserves | Accumulated deficit | Accumulated other comprehensive loss | Total |
| | | # | $ | $ | $ | $ | $ | $ |
| **Balance, January 1, 2019** | | 83,036,228 | 37,282,515 | - | 6,548,367 | (14,416,291) | (19,537) | 29,395,054 |
| Stock based compensation | | - | - | - | 366,971 | - | - | 366,971 |
| Net loss and comprehensive loss for the period | | - | - | - | - | (5,930,976) | - | (5,930,976) |
| **Balance, June 30, 2019** | | **83,036,228** | **37,282,515** | **-** | **6,915,338** | **(20,347,267)** | **(19,537)** | **23,831,049** |

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 and six months ended June 30, 2020 and 2019

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

| | Note | June 30, 2020<br>$ | June 30, 2019<br>$ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Net loss and comprehensive loss for the period | | **(4,966,841)** | (5,930,976) |
| Adjustments to reconcile net loss to cash used in operating activities: | | | |
| Unrealized fair value adjustment on biological assets | 7 | **(263,142)** | (88,083) |
| Realized fair value adjustment on sale of inventory | | **66,968** | 50,608 |
| Write-off of inventory to net realizable value | 6 | **327,073** | - |
| Depreciation and amortization | 9, 11 | **89,023** | 309,946 |
| Amortization of transaction costs on loan payable | 14 | **163,445** | |
| Accretion of discount on convertible debenture | 18 | **127,388** | 72,747 |
| Accretion of transaction costs on convertible debentures | 18 | **5,357** | - |
| Interest accretion on lease liability | 17 | **46,645** | - |
| Share of income from investment in joint venture | 12 | **(138,839)** | - |
| Unrealized exchange loss (gain) | 12 | **(64,000)** | 55,500 |
| Stock-based compensation | 19(c) | **111,619** | 366,971 |
| Loss on disposal of property, plant and equipment | 9 | **522,032** | 101,302 |
| Expected credit loss | 12 | **115,391** | 326,726 |
| Interest income | | **-** | (134,433) |
| Changes in non-cash operating working capital | 22 | **2,184,744** | 514,713 |
| **Total cash outflows used in operating activities** | | **(1,673,137)** | (4,354,979) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisition of property, plant and equipment | 9 | **(460,351)** | (7,336,128) |
| Proceeds on disposal of property, plant and equipment | 9 | **238,095** | 1,000 |
| Acquisition of assets in process | 10 | **(740,735)** | (3,310,687) |
| Interest capitalized in purchase of assets in process | 10 | **(179,379)** | - |
| Change in building, equipment and construction deposits | | **(316,898)** | (422,178) |
| Acquisition of intangible assets | | **-** | (4,375) |
| Funds provided for promissory note | | **-** | (300,000) |
| Royalty investment | | | (96,768) |
| Interest received | | **-** | 134,433 |
| **Total cash outflows used in investing activities** | | **(1,459,268)** | (11,334,703) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of equity units, net of issuance costs | 19 | **1,007,300** | - |
| Proceeds from issuance of convertible debentures | 18 | **2,537,800** | - |
| Payment of principal portion of lease liabilities | 17 | **(88,792)** | - |
| Advances on secured bridge loan | 14 | **1,954,970** | - |
| Repayment of secured bridge loan | 14 | **(1,718,853)** | - |
| Repayment of loan payable | 14 | **(782,115)** | - |
| **Total cash inflows from financing activities** | | **2,910,310** | - |
| **Decrease in cash** | | **(222,095)** | (15,689,682) |
| **Cash, beginning of period** | | **631,106** | 19,565,606 |
| **Cash, end of period** | | **409,011** | 3,875,924 |

Supplemental cash flow information is provided in Note 22

## 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 except for new accounting policies for government grants and joint operation.

These Interim Financial Statements were approved and authorized for issue by the Board of Directors on August 31, 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 June 30, 2020. The production and sale of cannabis have been recognized as essential services across Canada. As at June 30, 2020, the Company has not observed any material impairments of its 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 the Company's 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.

### (c) 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 condensed consolidated interim statement of financial position. The Company recognizes government grants in the condensed consolidated interim statements of loss and comprehensive loss 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 condensed consolidated interim statements of loss and comprehensive loss in the period in which it becomes receivable.

### (d) JOINT OPERATION

The Company has entered into a license and manufacturing agreement with Dycar Pharmaceuticals Ltd. ("Dycar") that is subject to a joint arrangement. The Company has assessed the nature of its joint arrangement as at June 30, 2020, and determined it to be a joint operation. For joint operations, the Company recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the condensed consolidated interim statement of financial position and condensed consolidated interim statements of loss and comprehensive loss. All balances and effects of transactions between the joint operation and the Company are eliminated to the extent of the Company's interest in the joint operation.

## 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 and comprehensive loss attributable to shareholders of $2,528,713 and $4,966,841 during the three and six month periods ended June 30, 2020 (three and six months ended June 30, 2019 – net loss of $2,302,495 and $5,930,976), an accumulated deficit of $30,781,026 at June 30, 2020 (December 31, 2019 - $25,814,185), and negative cash flow from operations during the six months ended June 30, 2020 of $1,673,137 (six months ended June 30, 2019 – negative cash flows from operations of $4,354,979). 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.

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

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 condensed consolidated interim statement of financial position. These adjustments could be material.

## 4. NEW STANDARDS

New standards and interpretations adopted

**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 any future acquisition transactions.

## 5. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Trade receivables | **325,333** | 261,583 |
| Trade receivables subject to factoring arrangement | **459,990** | 182,332 |
| Other receivables – CEWS | **291,881** | - |
| Other receivables | **31,317** | 2,015 |
| **Total accounts receivable** | **1,108,521** | 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 and six months ended June 30, 2020 (June 30, 2019 - $nil).

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 $291,881 for the period of June 7 to June 30, 2020, and the amount receivable is included in accounts receivable as at June 30, 2020. $257,643 of the wage subsidy relates to the Company's production employees and has reduced the cost of inventory produced during the period. $34,238 has been recorded as a credit to wages and salaries expense for administrative employees included in general and administrative expenses. The Company intends to continue its participation in the CEWS program, subject to meeting the eligibility requirements. There are no unfulfilled conditions or other contingencies related to the current CEWS program.

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

## 6. INVENTORY

Inventory consisted of the following as at:

| | **June 30, 2020** | | | December 31, 2019 |
|---|---|---|---|---|
| | **Capitalized cost** | **Biological assets fair value adjustments** | **Total** | Total |
| | **$** | **$** | **$** | $ |
| Dried cannabis | | | | |
| Finished goods | 204,656 | 319,156 | **523,813** | 117,032 |
| Work-in-process | 760,535 | 50,626 | **811,161** | 255,474 |
| Cannabis extracts | | | | |
| Finished goods | 1,626,053 | - | **1,626,053** | 1,126,186 |
| Work-in-process | 5,453,858 | - | **5,453,858** | 6,122,626 |
| Processing services | | | | |
| Finished goods | 315,367 | - | **315,367** | |
| Work-in-process | 35,554 | - | **35,554** | |
| Harvested cannabis trim | 332,881 | - | **332,881** | 98,923 |
| Packaging, supplies and other inventory | 1,263,402 | - | **1,263,402** | 623,602 |
| **Total inventory** | **9,992,307** | **369,782** | **10,362,089** | 8,343,843 |

Inventory expensed to cost of sales during the three and six months ended June 30, 2020 was $2,250,468 and $3,976,263 respectively (three and six months ended June 30, 2019 – $66,023 and $351,744). In the three and six months ended June 30, 2020, the Company recorded inventory write-offs totalling $nil and $327,073, where the carrying costs of inventory exceeded the net realizable value (three and six months ended June 30, 2019 - $nil).

At June 30, 2020, inventory included $350,921 (December 31, 2019 - $8,987) of goods that are finished or in-process related to the Company's contract manufacturing agreements. The carrying value of these goods represents the manufacturing cost incurred by the Company.

(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:

| | **June 30, 2020 $** | December 31, 2019 $ |
|---|---|---|
| Carrying amount, beginning of period | **453,867** | - |
| Production costs capitalized | **653,351** | 536,901 |
| Net increase in fair value due to biological transformation less cost to sell | **263,142** | 375,627 |
| Plants sold prior to harvest | **-** | (4,308) |
| Transferred to inventory upon harvest | **(1,174,309)** | (454,353) |
| **Carrying amount, end of period** | **196,051** | 453,867 |

As at June 30, 2020, the fair value of biological assets included $196,051 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.

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:

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

| Unobservable inputs | June 30, 2020, input values | December 31, 2019, input values | 5% increase (decrease) in significant input as at June 30, 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 | $5.45 – $5.69 per gram | $4.65 - $5.41 per gram | $18,000 increase ($18,000 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 | 32 - 37 grams per plant | 23 - 34 grams per plant | $10,000 increase ($10,000 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 59% complete | Average of 59% complete | $10,000 increase ($10,000 decrease) | $25,000 increase ($22,000 decrease) |
| **Post harvest costs** include drying and curing, testing, post-harvest overhead allocation, packaging and labelling costs | $2.47 per gram | $1.14 per gram | $8,000 decrease ($8,000 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%–9% 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

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Rent, security and utility deposits | **36,760** | 38,293 |
| Other prepayments | **480,317** | 219,465 |
| **Total prepaid expenses and others** | **517,077** | 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<br>$ | Building and building improvements<br>$ | Leasehold improvements<br>$ | Facility equipment<br>$ | Vehicle<br>$ | Office equipment & furniture<br>$ | Right of use assets<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|---|---|
| **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 | - | 140,215 | 5,100 | 108,528 | - | 14,378 | - | 268,221 |
| Disposals | - | - | - | (765,191) | - | (11,467) | - | (776,658) |
| Transferred from assets in process | - | 3,565,569 | - | 393,801 | - | - | - | 3,959,370 |
| **Balance, June 30, 2020** | **252,275** | **18,240,490** | **5,100** | **3,598,815** | **74,665** | **451,014** | **979,954** | **23,602,313** |
| **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 | - | 166,872 | | 240,617 | 4,902 | 51,441 | 77,535 | 541,367 |
| Disposals | - | - | - | (102,781) | - | (1,911) | - | (104,692) |
| **Balance, June 30, 2020** | **-** | **744,063** | **-** | **700,005** | **24,518** | **219,090** | **127,304** | **1,814,980** |
| **Carrying amounts as at:** | | | | | | | | |
| December 31, 2019 | 252,275 | 13,957,515 | - | 3,299,508 | 55,049 | 278,543 | 930,185 | 18,773,075 |
| **June 30, 2020** | **252,275** | **17,496,427** | **5,100** | **2,898,810** | **50,147** | **231,924** | **852,650** | **21,787,333** |

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

As at June 30, 2020, $473,971 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 and six months ended June 30, 2020 was $300,700 and $541,367 (three and six months ended June 30, 2019 - $161,707 and $290,442), of which $239,267 and $452,579 (three and six months ended June 30, 2019 - $nil) has been capitalized in the production of biological assets and inventory.

In the three and six months ended June 30, 2020, the Company disposed of cultivation equipment and related computer hardware with an aggregate book value of $671,996, for proceeds totalling $238,095.

## 10. ASSETS IN PROCESS

| | Building & building improvements | Leasehold improvements | Facility equipment | Office equipment & furniture | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Cost** | | | | | |
| Balance, January 1, 2019 | - | 3,875,806 | 5,938 | 102,549 | 3,984,293 |
| Additions | 2,111,776 | 962,906 | 1,256,362 | 16,250 | 4,347,294 |
| Capitalized interest and accretion | 834,425 | - | - | - | 834,425 |
| Disposals | - | (40,496) | - | - | (40,496) |
| Transfer between categories | 2,414,898 | (3,429,670) | 1,014,772 | - | - |
| Transferred to PPE | (2,427,288) | (1,368,546) | (1,532,729) | (102,549) | (5,431,112) |
| Balance, December 31, 2019 | 2,933,811 | - | 744,343 | 16,250 | 3,694,404 |
| Additions | 463,044 | - | 383,220 | - | 846,264 |
| Capitalized interest and accretion | 179,379 | - | - | - | 179,379 |
| Transfers between categories | (10,665) | - | 10,665 | - | - |
| Disposals | - | - | (88,161) | | (88,161) |
| Transferred to PPE | (3,565,569) | - | (393,801) | - | (3,959,370) |
| **Balance, June 30, 2020** | **-** | **-** | **656,266** | **16,250** | **672,516** |

Interest of $43,453 and $179,379 was capitalized to building improvements during the three and six months ended June 30, 2020 (three and six months ended June 30, 2019 - $303,050 and $556,831).

As at June 30, 2020, $262,927 of the cost of the Company's additions were included in accounts payable and accrued liabilities (December 31, 2019 - $157,399).

During the three and six months ended June 30, 2020, the Company wrote-off consultant fees capitalized in assets in process totaling $88,161, related to the setup of an extraction line in the Company's production facility. The amounts were written off as the Company is no longer proceeding with the planned implementation of this line and has shifted resources to other production activities.

(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, June 30, 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 | - | 235 | - | 235 |
| **Balance, June 30, 2020** | **-** | **580** | **-** | **580** |
| **Carrying amounts as at:** | | | | |
| December 31, 2019 | - | 9,030 | - | 9,030 |
| **June 30, 2020** | **-** | **8,795** | **-** | **8,795** |

## 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 ("Bhang"). 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:

| | **June 30, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Opening balance | **1,766,833** | 1,364,200 |
| Change in amounts receivable for expenses paid on behalf of joint venture | **108,380** | 887,424 |
| Expected credit loss | **(115,391)** | (26,726) |
| Change in foreign exchange on loan to joint venture | **64,000** | (65,400) |
| License fees payable to joint venture | **(517,512)** | - |
| Share of income (loss) from joint venture | **138,839** | (392,665) |
| **Ending balance** | **1,445,149** | 1,766,833 |

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

## 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. The prepaid royalties will be expensed on a per unit basis as the Company produces and sells DeepCell-licensed products. As at June 30, 2020, the Company had not yet begun producing DeepCell branded products.

## 14. LOAN PAYABLE AND FACTORING PAYABLE

On October 11, 2019, the Company entered into an agreement with an institutional lender for a $7,500,000 secured bridge loan (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 June 30, 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 | 396,041 |
| Repayment of loan principal | (782,115) |
| Repayment of interest on loan payable | (389,048) |
| Amortization of transaction costs | 163,445 |
| **Loan payable, June 30, 2020** | **5,621,321** |

As at June 30, 2020, the Company owed $379,747 to the lender for receivables assigned under the Secured Bridge Loan (December 31, 2019 - $143,630). During the six months ended June 30, 2020, the Company received advances on the Secured Bridge Loan of $1,954,970 (for the six months ended June 30, 2019 - $nil), and the Company made repayments on the Secured Bridge Loan of $1,718,853 (for the six months ended June 30, 2019 - $nil).

## 15. DEFERRED REVENUE AND JOINT OPERATION

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

On February 18, 2020, Dycar advanced the Company $3,000,000 to be applied against the cost of manufacturing services provided by the Company pursuant to the agreement. Dycar committed to advancing an additional $4,500,000, subject to the Company achieving certain production targets. The $3,000,000 advance is recorded as deferred revenue on the condensed consolidated interim statement of financial position and recognized over the agreement term from the Company's share of proceeds from the sale of products sold. Refer to Note 27 for the Company's commitments under this contract.

The Company's share of the revenue and expenses related to this joint arrangement is equal to the value of the manufacturing services as defined in the agreement and is recognized when the products are sold. In the three and six months ended June 30, 2020, the Company recorded gross sales of $106,894 and cost of sales of $89,805 (three and six months ended June 30, 2019 - $nil) in the condensed consolidated interim statements of loss and comprehensive loss representing the Company's share of revenue and expenses in the period. Of the gross sales of $106,894, $88,212 represents a draw down of the deferred revenue and $18,682 was additional proceeds earned on the sale of the products sold.

## 16. OTHER LIABILITIES

Under terms of the Dycar Agreement, Dycar provided the Company with an advance payment of $600,000 on December 27, 2019. $100,000 of the advance was for the procurement of production molds and $500,000 was provided to secure cannabis inputs for Dycar branded products, $84,870 of which remains unspent and is included in other liabilities as at June 30, 2020 (December 31, 2019 - $584,870).

During the three months ended June 30, 2020, the Company received advances from Dycar totalling $414,000 for the Company to procure production equipment. As at June 30, 2020, the Company has made deposits on this production equipment totalling $434,388, which is included in building equipment and construction deposits on the condensed consolidated interim statement of financial position. Upon receipt of the equipment, title will transfer to Dycar in accordance with a purchase and sale agreement between the parties.

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

## 17. 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 | (87,605) | (1,187) | (88,792) |
| Interest expense | 46,312 | 333 | 46,645 |
| **Balance, June 30, 2020** | **866,987** | **9,193** | **876,180** |
| Current | | | **117,206** |
| Non-current | | | **758,974** |

During the three and six months ended June 30, 2020, the Company recognized $24,233 and $27,660 in variable lease payments included in general and administrative expenses on the condensed consolidated interim statements of net loss and comprehensive loss (for the three and six months ended June 30, 2019 - $22,071 and $75,596).

At June 30, 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 | 199,975 | 407,562 | 544,066 | **1,151,603** |
| Equipment | 2,374 | 4,748 | 3,561 | **10,683** |
| Minimum lease payments | 202,349 | 412,310 | 547,627 | **1,162,286** |
| Financing charges | (85,142) | (127,935) | (73,029) | **(286,106)** |
| **Total lease liabilities** | **117,207** | **284,375** | **474,598** | **876,180** |

## 18. 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 condensed consolidated interim 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%.

During the three months ended June 30, 2020, debentures with an aggregate principal totaling $1,145,000 were converted by the holders into 5,725,000 common shares of the Company. Upon conversion a carrying value of $825,420 from convertible debentures and $351,054 from equity reserves was reclassified to share capital.

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 condensed consolidated interim 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%.

During the three months ended June 30, 2020, debentures with an aggregate principal totaling $180,000 were converted by the holders into 900,000 common shares of the Company. On conversion a carrying value of $126,883 from convertible debentures and $55,623 from equity reserves was reclassified to share capital.

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 condensed consolidated interim 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 | 2,106,411 |
| Accretion interest on debenture discount | 127,388 | - | 127,388 |
| Accretion of transaction costs | 5,357 | - | 5,357 |
| Conversion to common shares | (952,303) | (406,677) | (1,358,980) |
| Issued at amortized cost, net of transaction costs | 1,815,512 | 722,288 | 2,537,800 |
| **Balance, June 30, 2020** | **2,453,912** | **964,064** | **3,417,976** |

A reconciliation of interest and accretion expense on the convertible debentures in the six months ended June 30, 2020, and 2019, is as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Accretion interest on debenture discount | **127,388** | 257,500 |
| Interest expense payable in cash | **188,503** | 372,077 |
| | **315,891** | 629,577 |
| | | |
| Total interest and accretion | **315,891** | 629,577 |
| Interest expenses capitalized in assets in process (Note 10) | **(179,379)** | (556,731) |
| Accretion and interest on convertible debentures expensed | **136,512** | 72,846 |
| | | |
| Interest expense payable in cash | **188,503** | 257,500 |
| Interest expense paid | **84,839** | (257,500) |
| Interest expense included in accounts payable and accrued liabilities | **103,664** | - |

On August 7, 2020, the Company settled interest payments totaling $115,458 in exchange for common shares in the Company at a price of $0.25 per share. This included the $103,664 of interest expense included in accounts payable and accrued liabilities as at June 30, 2020, related to interest from the six months ended June 30, 2020 and $11,794 related to the year ended December 31, 2019.

## 19. SHARE CAPITAL

### (a) CAPITAL STOCK

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

As at June 30, 2020, a total of 93,587,602 (December 31, 2019 – 83,588,269) common shares were issued and outstanding. No special shares have been issued or are outstanding.

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

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

On June 25, 2020, the Company closed the first tranche of a $5,100,000 equity offering for proceeds totaling $1,012,300, in exchange for 3,374,333 units. Each unit of the offering is comprised of one common share of the Company and one common share purchase warrant at a purchase price of $0.30 per unit. Each warrant will entitle the holder to acquire one common share of the Company at an exercise price of $0.40 any time up to 36 months following the applicable closing date. The proceeds were recognized in equity and allocated $660,196 to common shares and $352,104 to reserves (Note 19(b)) based on the relative fair value of each equity instrument. The Company incurred share issuance costs totalling $5,000 related to this transaction.

### (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.

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

| | Warrants outstanding | Weighted average exercise price |
|---|---|---|
| | # | $ |
| Outstanding, January 1, 2019 | 27,285,084 | 1.10 |
| Expired/cancelled | (2,020,113) | 0.75 |
| Outstanding, December 31, 2019 | 25,264,971 | 1.08 |
| Issued | 3,374,333 | 0.40 |
| Expired | (15,234,820) | 1.28 |
| **Outstanding, June 30 2020** | **13,404,484** | **0.67** |

All warrants outstanding as at June 30, 2020, are exercisable.

The following warrants remain outstanding as at June 30, 2020:

| Warrant description | # of warrants | Expiry date | Exercise price |
|---|---|---|---|
| | # | | $ |
| Warrants issued on June 25, 2020 equity offering | 3,374,333 | 6/25/2023 | 0.40 |
| 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** | **13,404,484** | | **0.67** |

As at June 30, 2020, the warrants outstanding have a weighted average remaining life of 1.11 years.

Warrants issued and modified in the six months ended June 30, 2020, and the year ended December 31, 2019 were valued using the Black-Scholes option pricing model using the following range of assumptions:

| | June 30, 2020 | December 31, 2019 |
|---|---|---|
| Share price | $0.27 | $0.18 |
| Expected dividend yield | - | - |
| Volatility | 99.61% | 84.75% |
| Expected life | 3.00 years | 1.00 years |
| Forfeiture rate | - | - |
| Risk-free rate | 0.32% | 1.57% |

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

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

### (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 June 30, 2020, based on the Company's total common shares outstanding, a total of 9,358,760 (December 31, 2019 - 8,358,827) stock options may be issued and outstanding. Based on this, the Company could grant up to 1,807,927 (December 31, 2019 – 3,607,827) additional stock options beyond what was issued and outstanding as at June 30, 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).

Stock option activity for the equity compensation plan for the period ending June 30, 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 | 3,724,833 | 0.40 |
| Forfeited | (925,000) | 0.75 |
| **Outstanding, June 30, 2020** | **7,550,833** | **0.59** |

During the three and six months ended June 30, 2020, the Company recognized an expense of $115,455 and $111,619 (three and six months ended June 30, 2019 – expense of $228,365 and $366,971) of share-based compensation related to stock options included in operating expenses. In the three months ended March 31, 2020, the Company recognized a recovery of $3,836 as 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 June 5, 2020, the Company approved the grant of 655,000 stock options to employees of the Company. The options are exercisable into common shares of the Company at a price of $0.40 per common share and have a five-year term which expires June 5, 2025. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

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

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

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 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 June 30, 2020, have a weighted average remaining contractual life of 3.76 years (December 31, 2019 – 3.32 years).

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

| | **Six months ended June 30, 2020** | **2019** |
|---|---|---|
| Share price | **$0.30 to $0.335** | $0.48 |
| Expected dividend yield | **$nil** | $nil |
| Volatility | **78.87% to 99.38%** | 56.03% to 87.17% |
| Expected life (years) | **3 to 4** | 2 to 5 |
| Forfeiture rate | **31%** | 30% |
| Risk-free rate | **0.52% to 1.07%** | 1.34% to 1.55% |

The following table presents information related to stock options at June 30, 2020:

| **Weighted average exercise price** | **Number of options** | **Vested** | **Weighted average remaining life (years)** |
|---|---|---|---|
| $0.40 | 3,674,833 | - | 4.69 |
| $0.75 | 2,431,000 | 1,934,337 | 2.59 |
| $0.80 | 1,210,000 | 630,005 | 3.50 |
| $0.87 | 235,000 | 190,001 | 2.65 |
| **$0.59** | **7,550,833** | **2,754,343** | **3.76** |

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

| **Weighted average exercise price** | **Number of options** | **Vested** | **Weighted average remaining life (years)** |
|---|---|---|---|
| $0.75 | 3,151,000 | 1,706,838 | 3.29 |
| $0.80 | 1,335,000 | 356,669 | 4.00 |
| $0.87 | 265,000 | 155,001 | 3.15 |
| $0.77 | 4,751,000 | 2,218,508 | 3.32 |

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

## 20. 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:

| | **June 30, 2020** | June 30, 2019 |
|---|---|---|
| Stock options | **7,550,833** | 5,374,315 |
| Warrants | **13,450,313** | 27,089,084 |
| Convertible debentures | **15,150,000** | 6,866,687 |

## 21. GROSS REVENUE

Gross revenue for the three and six months ended June 30, 2020, and 2019, are disaggregated as follows:

| | **Three months ended June 30,** | | **Six months ended June 30,** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$** | $ | **$** | $ |
| Product sales | **2,251,099** | 205,753 | **4,262,186** | 492,415 |
| Sale of cannabis to other licensed producers | **446,478** | - | **446,478** | - |
| Tolling revenue | **128,910** | - | **382,670** | - |
| **Total** | **2,826,487** | 205,753 | **5,091,344** | 492,415 |

During the three and six months ended June 30, 2020, the Company had gross revenue totalling $1,691,773 and $3,519,307 related to the sale of Bhang licensed products (three and six months ended June 30, 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 and six months ended June 30, 2020, the license fee payable to the joint venture totalled $279,100 and $517,512 (for the three and six months ended June 30, 2019 - $nil).

Sale of cannabis during the three months ended June 30, 2020, includes a sale of cannabis oil to Dycar, the partner in the Company's joint operation (Note 15 and 16). 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 Indiva.

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

## 22. SUPPLEMENTAL CASH FLOWS

Changes in non-cash working capital for the six months ended June 30, were as follows:

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Changes in non-cash working capital impacting cash flows from operating activities were as follows: | | |
| Taxes receivable | **358,167** | 216,791 |
| Accounts receivable | **(662,591)** | (225,632) |
| Biological assets | **322,743** | (156,190) |
| Inventory | **(1,761,491)** | (511,093) |
| Prepaid expenses | **(259,319)** | 900,705 |
| Accounts payable and accrued liabilities | **609,680** | 290,132 |
| Excise tax payable | **231,978** | - |
| Other liabilities | **2,825,788** | - |
| Interest on loan payable and convertible debentures | **110,657** | - |
| License fee payable | **517,512** | - |
| Amounts receivable from joint venture | **(108,380)** | - |
| | **2,184,744** | 514,713 |

## 23. SEGMENTED INFORMATION

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

## 24. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash, 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, promissory note, 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 fair 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 June 30, 2020.

### (a) Foreign currency risk

As at June 30, 2020, the Company did not hold any cash denominated 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 US dollar against the Canadian dollar on this loan would result in a decrease or increase of approximately $137,870 in unrealized foreign exchange gain (loss) for the six months ended June 30, 2020.

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

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

| As at June 30, 2020 | Carrying amount | Contractual cash flows | Year 1 | Year 2 - 3 | Year 4 -5 and thereafter |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Accounts payable and accrued liabilities | 10,039,822 | 10,039,822 | 10,039,822 | - | - |
| Excise tax payable | 294,439 | 294,439 | 294,439 | - | - |
| Factoring payable | 379,747 | 379,747 | 379,747 | - | - |
| Other liabilities | 3,410,658 | 3,410,658 | 3,410,658 | - | - |
| Loan payable | 5,621,321 | 5,621,321 | 5,621,321 | - | - |
| Lease liabilities | 876,180 | 1,162,286 | 202,349 | 412,310 | 547,627 |
| Convertible debentures | 2,453,912 | 3,330,000 | - | 3,330,000 | - |
| **Total** | **23,076,079** | **24,238,273** | **14,327,015** | **3,742,310** | **547,627** |

| 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 $1,362,800 ($1,000,000 USD) and amounts receivable related to expenses paid on behalf of the joint venture totalling $995,896. The Company has recorded an expected credit loss of $142,117 on these amounts as of June 30, 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.

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

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 June 30, 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 June 30, 2020 (December 31, 2019 - $nil).

During the three and six months ended June 30, 2020, the Company earned a total gross revenue of $2,160,909 and $3,893,437 from three major customers (three and six months ended June 30, 2019 – $203,136 and $488,488 from one customer). These customers each had revenues of over 10% of the Company's total revenue for the three and six months ended June 30, 2020. Total amounts receivable owing from these customers at June 30, 2020, was $494,365 (December 31, 2019 - $284,906).

As at June 30, 2020, the Company's aging of receivables was approximately as follows:

| | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| | $ | $ |
| Current | 1,106,534 | 443,943 |
| 61 – 120 days | - | - |
| Greater than 121 days | 1,987 | 1,987 |
| **Total** | **1,108,521** | 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 $14,000 or $28,100 increase or decrease in interest expense for the three or six months ended June 30, 2020. The interest rate on the convertible debenture is fixed and accordingly is not subject to interest rate risk.

## 25. FAIR VALUE MEASUREMENTS

As at June 30, 2020, the Company's cash balance of $409,011 (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 June 30, 2020.

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

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

| | **June 30, 2020** | | | **December 31, 2019** | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| | **$** | **$** | **$** | $ | $ | $ |
| Cash | **409,011** | **-** | **-** | 631,106 | - | - |
| Total | **409,011** | **-** | **-** | 631,106 | **-** | **-** |

## 26. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of $25,573,260 (December 31, 2019 – $27,126,197), as shown below:

| | **June 30, 2020** | **December 31, 2019** |
|---|---|---|
| | **$** | **$** |
| **Total Debt** | | |
| Factoring payable | 379,747 | 143,630 |
| Loan payable | 5,621,321 | 6,232,998 |
| Convertible debentures | 2,453,912 | 1,457,958 |
| **Total Debt** | **8,454,980** | **7,834,586** |
| **Total Equity** | **17,118,280** | **19,291,611** |

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

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

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

## 27. 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 for these expenditures is as follows:

| | < 1 Year | 1 to 5 Years | > 5 Years | **Total** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| Minimum lease payments and variable charges | 257,251 | 1,073,237 | 52,938 | **1,383,426** |
| Other commitments | 2,007,439 | 99,713 | - | **2,107,152** |
| **Total** | **2,264,690** | **1,172,950** | **52,938** | **3,490,578** |

Subsequent to June 30, 2020, the Company entered into commitments totalling $123,470. These commitments are primarily comprised of production and marketing 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.

Under the terms of the Dycar Agreement (refer to note 15) the Company has committed to guaranteed cash payments payable to Dycar over the term of the agreement and prior to the guaranteed sales date. Dycar has committed to providing the Company an advance for manufacturing services payable at the beginning of each phase of the agreement. Guaranteed cash payments and advances amounts are as follows:

| | Guaranteed cash payments to Dycar | Advance payment to Indiva | Guaranteed sales date |
|---|---|---|---|
| | $ | $ | |
| Phase 1 | 7,086,750 | 3,000,000 | February 28, 2021 |
| Phase 2 | 5,670,496 | 2,500,000 | June 28, 2021 |
| Phase 3 | 4,410,995 | 2,000,000 | September 28, 2021 |

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

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)

## 28. 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 three and six months ended June 30, 2020, and 2019:

| | **For the three months ended June 30,** | | **For the six months ended June 30,** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **$** | $ | **$** | $ |
| Short-term key management personnel Compensation | **255,000** | 173,750 | **510,000** | 396,300 |
| Share-based payments | **60,399** | 90,535 | **104,090** | 179,997 |
| Termination payments | **-** | - | **-** | 480,000 |
| Directors' fees | **5,625** | 5,625 | **11,250** | 11,250 |

## 29. RELATED PARTY TRANSACTIONS

The Company has a related party relationship with the Bhang JV. During the three and six months ended June 30, 2020, the Company invoiced the Bhang JV $99,989 and $236,552 (three and six months ended June 30, 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 $321,453 and $559,865 related to licensed products manufactured and sold by the Company during the three and six months ended June 30, 2020 (three and six months ended June 30, 2019 - $nil).

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.

## 30. INCOME TAXES

There have been no material changes to income tax matters during the three months ended June 30, 2020. The Company is subject to income tax at a statutory tax rate of 26.5%. During the three months ended June 30, 2020, there were no material changes to statutory tax rates.

## 31. 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.

## 32. SUBSEQUENT EVENTS

Subsequent to June 30, 2020, debenture holders converted $175,000 of principal on the convertible debentures into 875,000 common shares of the Company. Accrued interest payable on the date of conversion to debenture holders is $2,118.

Effective July 20, 2020, the Company and Bhang amended the license agreement (the "Amended License Agreement"), replacing the previous license agreement that was entered into in connection with the Bhang JV. Bhang's interest in the Bhang JV will be conveyed to the Company for no consideration and the joint venture agreement is 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. In exchange for the license, the Company has paid an upfront license fee of USD$1,000,000, settled by the USD$1,000,000 loan previously advanced from Indiva to the Bhang JV, and 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 cannabis chocolate products produced and sold by the Company.

On July 28, 2020, the Company agreed to terms with its lender to extend the maturity of the Company's Secured Bridge Loan and Demand Loan Facility until October 31, 2021. In consideration for this extension, the Company will pay fees of $73,450, and is subject to an increase of two percent in the annual interest rate charged on the Demand Loan Facility.

On August 7, 2020, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of $115,458 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 461,832 shares were issued at a deemed price of $0.25 per share which includes 46,811 shares issued to related parties.

On August 10, 2020, the Company closed the second and final tranche of equity units issued for total proceeds of $4,167,199 in exchange for 13,890,663 units. Total proceeds of this equity offering was $5,179,499 and the total number of units issued to 17,264,996. Each unit of the offering is comprised of one common share of the Company and one common share purchase warrant, at a purchase price of $0.30 per unit. Each warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.40 any time up to 36 months following the applicable closing date.