INDIVA LIMITED

Annual Consolidated Financial Statements

(Expressed in Canadian dollars)

For the years ended December 31, 2022 and 2021

Independent Auditor's Report

To the Shareholders of
Indiva Limited

Opinion

We have audited the consolidated financial statements of Indiva Limited and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the consolidated financial statements, which indicates that the Company has an accumulated deficit of $67.5 million as at December 31, 2022 and a net loss of $10.9 million for the year then ended. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. In addition to the matters described in the *Material Uncertainty Related to Going Concern* section of our report, we have determined that the matter described below to be the key audit matter to be communicated in our report. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

<table>
<tr><th>Description of key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Valuation of inventory</td></tr>
<tr><td>At December 31, 2022, the carrying amount of inventories amounted to $4.1 million, after recording inventory write-downs of $2.2 million during the year then ended. Inventory write-downs includes provisions for obsolete and excess inventory, provisions for aged inventory and provisions where cost exceeds the net realizable value. As described in Note 7 of the consolidated financial statements, inventories at December 31, 2022 consist of dried cannabis and cannabis extracts. Valuation of the inventories is at the lower of cost or net realizable value. Measurement of cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity and is net of provisions.

The judgment applied in the valuation of inventory made us conclude that valuation of inventories is a key audit matter of our audit. Significant judgement is required in assessing the appropriate level of the provision for slow moving and/or obsolete inventory or when the cost exceeds net realizable value. Such judgements include management’s consideration of the impact of price fluctuations, inventory spoilage, inventory damage, customer demand for products, products with slow turnover and estimation of remaining conversion/completion costs and selling costs.</td><td>Our audit procedures to assess the valuation of inventories included, among other procedures:
• Performed a physical observation of the year end inventories on a sample basis and inspected the production/package date and expiry date for the products counted as well as assessing if the selected samples are damaged or spoiled;
• For a sample of inventory items, tested the underlying inputs in the calculation of the actual cost of inventories against third party support and internal records;
• Tested management’s calculation and application of overhead rates to inventory;
• Evaluated the assumptions made by management regarding the price fluctuation and customer demand for products;
• On a sample basis tested the estimation of remaining conversion/completion costs and selling costs;
• On a sample basis agreed the expiration dates and production dates of inventory items in the provision for aged inventory model to production reports and to the results of physical inventory observation;
• Assessed management’s analysis of inventory items by age;
• Obtained and inspected the inventory subledger and compared a sample of inventory costs at December 31, 2022 to the Company’s estimate of net realizable value; and
• On a sample basis, we compared the selling price used in the estimated net realizable value to either a sales price subsequent to year-end or the sales price of the last sales invoice in 2022.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information is comprised of Management's Discussion and Analysis for the year ended December 31, 2022.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Ernst & Young LLP

Toronto, Canada
April 17, 2023

Chartered Professional Accountants
Licensed Public Accountants

Indiva Limited
Consolidated Statements of Financial Position
As at December 31, 2022 and 2021
(Expressed in Canadian dollars)

As at	*Note*	**December 31, 2022**	December 31, 2021 (Note 5)
		$	$
ASSETS			
Current assets			
Cash		**2,785,710**	2,480,335
Accounts receivable	*6*	**4,133,982**	5,870,468
Inventory	*7*	**4,138,047**	6,442,301
Prepaid expenses and deposits	*8*	**494,166**	650,011
Prepaid royalties	*13*	**-**	71,246
Assets held for sale	*11*	**130,215**	-
Total current assets		**11,682,120**	15,514,361
Other non-current assets			
Property, plant and equipment	*9*	**22,493,894**	22,396,477
Assets in process	*10*	**47,027**	59,863
Equipment deposits	*9*	**23,127**	726,711
Intangible assets	*12*	**1,658,688**	1,866,147
Prepaid royalties	*13*	**1,944,219**	1,877,704
Total assets		**37,849,075**	42,441,263
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		**12,654,341**	7,878,322
Deferred revenue		**-**	4,025
Other liabilities	*15*	**315,636**	156,780
Lease liability	*16*	**162,745**	150,457
Convertible debentures	*17*	**250,000**	701,158
Total current liabilities		**13,382,722**	8,890,742
Other non-current liabilities			
Other liabilities	*15*	**720,838**	731,393
Lease liability	*16*	**401,275**	564,068
Loan payable	*14*	**18,945,227**	18,327,529
Convertible debentures	*17*	**2,250,478**	1,898,412
Total liabilities		**35,700,540**	30,412,144
Equity			
Share capital	*18*	**57,391,055**	57,229,825
Contributed surplus		**6,011,665**	5,737,124
Reserves		**6,244,930**	5,629,233
Accumulated other comprehensive loss		**(19,537)**	(19,537)
Accumulated deficit		**(67,479,578)**	(56,547,526)
Total equity		**2,148,535**	12,029,119
Total liabilities and equity		**37,849,075**	42,441,263

Going Concern (Note 3), Commitments (Note 27), and Subsequent Events (Note 31)

N. Marotta
Carmine (Niel) Marotta

J. Yersh
James Yersh

Indiva Limited

Consolidated Statements of Loss and Comprehensive Loss

For the years December 31, 2022 and 2021

(Expressed in Canadian dollars)

	Note	Year ended December 31, 2022	2021 (Note 5)
		$	$
Gross revenue		**37,676,095**	35,431,277
Excise taxes		**(3,273,348)**	(3,227,380)
Net revenue		**34,402,747**	32,203,897
Cost of goods sold	*7*	**(24,018,692)**	(22,472,922)
Write-down of inventory	*7*	**(2,231,431)**	(2,573,012)
Gross margin before fair value adjustments		**8,152,624**	7,157,963
Fair value adjustment on sale of inventory		-	(167,642)
Unrealized loss on changes in fair value of biological assets		-	(140,771)
Gross margin		**8,152,624**	6,849,550
Operating expenses			
General and administrative		**5,707,114**	6,083,222
Marketing and sales		**6,527,695**	4,931,453
Research and development		**1,016,420**	416,956
Share-based compensation	*18(b)*	**585,911**	473,821
Expected credit loss	*24(c)*	**3,019**	6,135
Depreciation of property, plant and equipment	*9*	**203,024**	277,003
Amortization of intangible assets	*12*	**207,460**	207,931
Total operating expenses		**14,250,643**	12,396,521
Loss from operations		**(6,098,019)**	(5,546,972)
Other income (expenses)			
Foreign exchange gain (loss)		**(62,493)**	23,894
Finance costs	*22*	**(4,717,979)**	(3,023,996)
Interest income		**36,127**	4,705
Gain (loss) on issuance of shares		**30,367**	(24,425)
Provision for onerous contract		**-**	(1,102,756)
Impairment and loss on disposal of property, plant and equipment	*11*	**(205,046)**	(22,353)
Write-off of non-refundable deposits		**-**	(4,447)
Loss on contract settlement		**-**	(5,277,159)
Loss on modification of debt	*14,17*	**(33,312)**	(510,110)
Loss before income taxes		**(11,050,355)**	(15,483,618)
Deferred tax recovery	*26*	**118,303**	266,954
Net loss and comprehensive loss attributable to shareholders		**(10,932,052)**	(15,216,664)
Loss per share, basic and diluted	*20*	(0.08)	(0.11)
Weighted average number of outstanding shares, basic and diluted	*20*	134,906,609	134,477,941

Indiva Limited
Consolidated Statements of Changes in Equity
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Note	Share capital Shares	Amount	Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		#	$	$	$	$	$	$
Balance, January 1, 2022	*5*	**146,150,202**	**57,229,825**	**5,737,124**	**5,629,233**	**(56,547,526)**	**(19,537)**	**12,029,119**
Equity portion of convertible debentures modification, net of tax		-	-	-	325,190	-	-	325,190
Shares issued in lieu of interest	*18*	33,821	5,750	-	-	-	-	5,750
Shares issued in lieu of accounts payable	*18*	978,388	166,326	-	-	-	-	166,221
Gain on shares issued		-	(30,367)	-	-	-	-	(30,367)
Issuance of restricted share units	*18*	134,626	19,521	-	-	-	-	19,626
Warrants expired	*18*	-	-	12,875	(12,875)	-	-	-
Share-based compensation		-	-	261,666	303,382	-	-	565,048
Net loss for the year		-	-	-	-	(10,932,052)	-	(10,932,052)
Balance, December 31, 2022		**147,297,037**	**57,391,055**	**6,011,665**	**6,244,930**	**(67,479,578)**	**(19,537)**	**2,148,532**

	Note	Share capital Shares	Amount	Contributed surplus	Reserves	Accumulated deficit	Accumulated other comprehensive loss	Total
		#	$	$	$	$	$	$
Balance, January 1, 2021		109,555,952	42,415,786	4,723,080	5,337,081	(41,330,862)	(19,537)	11,125,548
Conversion of convertible debentures		825,000	175,731	-	(44,711)	-	-	131,020
Exercise of stock options		200,000	100,600	-	(17,600)	-	-	83,000
Vested restricted shares units		880,648	308,226	(194,444)	-	-	-	113,782
Shares issue in lieu of interest		240,269	61,500	-	-	-	-	61,500
Loss on shares issued in lieu of interest		-	24,425	-	-	-	-	24,425
Issuance of shares, net of tax		25,000,000	12,115,390	-	-	-	-	12,115,390
Share issuance costs		-	(669,662)	-	-	-	-	(669,662)
Warrants exercised		95,000	51,095	-	(13,095)	-	-	38,000
Warrant incentive program		8,866,666	2,417,514	14,965	1,114,186	-	-	3,546,665
Broker warrants exercised		486,667	229,220	-	(83,220)	-	-	146,000
Expired warrants		-	-	999,079	(999,079)	-	-	-
Share-based compensation		-	-	194,444	335,671	-	-	530,115
Net loss for the year		-	-	-	-	(15,216,664)	-	(15,216,664)
Balance, December 31, 2021		**146,150,202**	**57,229,825**	**5,737,124**	**5,629,233**	**(56,547,526)**	**(19,537)**	**12,029,119**

Indiva Limited
Consolidated Statement of Cash Flows
For the years ended December 31, 2022 and 2021
(Expressed in Canadian dollars)

	Note	2022	2021 (Note 5)
		$	$
OPERATING ACTIVITIES			
Net loss for the year		**(10,932,052)**	(15,009,234)
Adjustments for:			
Deferred tax recovery	*26*	**(118,303)**	(266,954)
Unrealized gain on changes in fair value of biological assets		**-**	140,772
Realized fair value adjustments on inventory sold		**-**	167,642
Write-off of inventory to net realizable value	*7*	**2,231,431**	2,573,012
Depreciation and amortization	*9, 12*	**410,484**	485,655
Impairment and loss on disposal of property, plant and equipment	*11*	**205,046**	22,353
Non-cash financing costs	*22*	**1,219,890**	1,650,336
Share-based compensation	*18*	**585,911**	530,115
Shares issued to settle account payable and interest on convertible debenture	*18*	**161,230**	199,707
Provision for onerous contract		**-**	1,102,756
Expected credit losses		**3,019**	6,135
Interest income		**(36,127)**	(4,705)
Loss on modification of debt	*14, 17*	**33,312**	510,110
Write off of non-refundable deposits		**-**	4,447
Changes in working capital items	*21*	**7,785,781**	(9,954,663)
Cash provided by (used in) operating activities		**1,549,622**	**(17,842,516)**
INVESTING ACTIVITIES			
Purchase of property, plant and equipment and construction deposits	*9, 10*	**(1,068,048)**	(1,795,819)
Proceeds on disposal of assets held for sale	*11*	**2,832**	-
Interest income		**36,127**	4,705
Cash used in investing activities		**(1,029,089)**	(1,791,114)
FINANCING ACTIVITIES			
Proceeds from issuance of equity units, net of costs		**-**	15,259,348
Proceeds from exercise of stock options		**-**	83,000
Proceeds from exercise of warrants		**-**	184,000
Payment of principal portion of lease liabilities	*16*	**(215,158)**	(734,093)
Proceeds from loan payable, net of transaction costs		**-**	16,989,258
Repayment of loan payable		**-**	(4,791,686)
Repayment of promissory note		**-**	(1,614,438)
Advances on secured bridge loan		**-**	3,659,415
Repayments on factoring payable		**-**	(7,234,881)
Cash provided by (used in) financing activities		**(215,158)**	21,799,923
Change in cash		**305,375**	2,166,293
Cash, beginning of the year		**2,480,335**	314,042
Cash, end of the year		**2,785,710**	2,480,335

1. CORPORATE INFORMATION

Indiva Limited (the "Company" or "Indiva") is governed by the Laws of Ontario. The Company's common shares are listed on the TSX Venture Exchange (the "TSXV") under the symbol "NDVA".

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

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

2. BASIS OF PRESENTATION

(a) STATEMENT OF COMPLIANCE

These annual consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect as at January 1, 2022.

These Financial Statements were approved and authorized for issue by the Board of Directors on April 17, 2023.

(b) BASIS OF MEASUREMENT

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

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

3. GOING CONCERN

These Financial Statements have been prepared on the basis of principles applicable to a going concern which assumes the Company will continue to meet its obligations and discharge its liabilities for the foreseeable future. The Company has incurred losses in the current and prior periods, with a loss and comprehensive loss attributable to shareholders of $10,932,052 for the year ended December 31, 2022 (2021 – $15,216,664), an accumulated deficit of $67,479,578 as at December 31, 2022 (2021 - $56,547,526), and positive cash flow from operations during the year ended December 31, 2022 of $1,549,573 (2021 – negative cash flow from operations of $17,482,516). These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values and to extinguish liabilities in the normal course of business at the amounts stated in the Financial Statements.

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

In assessing whether this assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. If the going concern assumption was not appropriate for these Consolidated Financial Statements, then adjustments would likely be necessary to the carrying amounts of assets and liabilities, expenses, the accumulated deficit and the classification used in the consolidated interim statement of financial position. These adjustments could be material.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

The accounting policies set out below have been applied on a consistent basis to all years presented in the Financial Statements.

Indiva has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(a) BASIS OF CONSOLIDATION

These Financial Statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date on which the Company obtains control and continue to be consolidated until control ceases. Control is established when the Company has the power to govern the financial and operating policy decisions of the entity so as to obtain benefits from the entity's activities, and generally exists when more than 50% of the voting power of the entity is held by the Company. The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All material intercompany transactions and balances are eliminated in full upon consolidation.

The subsidiaries of the Company and their principal activities as at December 31, 2022 were as follows:

Name of subsidiary	Place of incorporation	Ownership interest as at		Principal activity
		December 31, 2022	December 31, 2021	
Indiva Amalco Ltd.	Ontario	**100%**	100%	Holding company
Indiva Inc.	Ontario	**100%**	100%	Licensed Producer under Cannabis Act
2639177 Ontario Inc.	Ontario	**100%**	100%	Holding company
Vieva Canada Ltd.	Ontario	**100%**	100%	Holds real estate for production facility

(b) PRESENTATION CURRENCY AND FOREIGN CURRENCY TRANSLATION

These Financial Statements are presented in Canadian dollars. The functional currency for each subsidiary consolidated with the Company is determined by the currency of the primary economic environment in which it operates (the "functional currency"). The functional currency of the Company and all of its subsidiaries is the Canadian dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transaction.

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date, while non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are not retranslated. Such exchange differences arising from retranslation are recognized in net loss.

(c) REVENUE

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

i) identify the contract with a customer;

ii) identify the performance obligations in the contract;

iii) determine the transaction price;

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

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

Revenue from the direct sale of cannabis products to customers for a fixed price is recognized when the Company transfers the control of the good(s) to the customer upon delivery and acceptance by the customer, and collectability is reasonably assured.

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

(d) CASH

Cash includes cash in interest-bearing accounts with high credit quality financial institutions.

(e) FINANCIAL INSTRUMENTS

Recognition and derecognition

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

Classification

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

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

The Company has made the following classifications:

Financial Instrument	Classification
Cash	FVTPL
Accounts receivable	Amortized cost
Other liabilities	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Convertible debentures	Amortized cost
Loan payable	Amortized cost

Financial assets at fair value through comprehensive income

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

Measurement

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

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

Impairment

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

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

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

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

Compound Instruments

The components of compound instruments issued by the Company (specifically the convertible debentures) are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash of another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest rate method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined as the residual amount after deducting the fair value of the liability component from the total proceeds. This is recognized and included in equity and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debenture are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debentures using the effective interest method.

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

Upon initial acquisition, PPE is valued at cost, being the purchase price, capitalized borrowing costs, and directly attributable costs required to bring the asset to the location and condition necessary for the asset to be capable of operating in the manner intended by management. In subsequent periods, PPE is stated at cost less accumulated depreciation and any impairment in value.

Assets acquired but not yet put into its intended use are categorized as assets in process and are moved to PPE once they are ready for use.

PPE is depreciated using the straight-line method over the estimated useful lives of the assets. Where significant components of assets have differing useful lives, depreciation is calculated on each separate component.

Estimates of remaining useful lives and residual values are reviewed annually, with any modifications accounted for prospectively.

Depreciation is calculated on a straight-line basis over the following useful lives:

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

Borrowing costs

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

Major maintenance and repairs

Major maintenance and repair expenditures include the cost of asset replacement parts and overhaul costs. When an asset or part of an asset is replaced or overhauled and it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured, that expenditure is capitalized and the carrying amount of the item replaced is derecognized. All maintenance and repair costs, except major overhaul and replacement costs, are expensed as incurred in net loss.

Gains and losses

Gains and losses on disposal of an item of PPE are determined by comparing the proceeds from disposal with the carrying amount and are recognized in other income (expenses).

(g) LEASES

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

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

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

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

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

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

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

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

(h) INTANGIBLES

Finite life intangible assets comprise genetics rights, which provide the Company with the right to use certain strains, and a license to manufacture Bhang chocolates. Finite life intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortization is calculated on a straight-line basis over the following useful lives:

License	9 years, 5 months
Genetics	20 years

(i) IMPAIRMENT OF NON-FINANCIAL ASSETS

The Company assesses non-financial assets for impairment when facts and circumstances suggest an indicator of impairment exists. If an indication of impairment exists, the recoverable amount of the asset is calculated in order to determine if an impairment loss is required. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit (“CGU”) to which the asset belongs. The recoverable amount is the higher of the value in use and the fair value less costs of disposal. In assessing value in use, the estimated future cash flows associated with the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of the asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount with the impairment recognized in net loss.

Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been determined had impairment not been recognized for the asset or CGU in prior periods.

(j) PROVISIONS, CONTINGENT LIABILITIES AND ONEROUS CONTRACTS

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

No liability is recognized if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

The Company had recognized an onerous contract liability for a contract where the unavoidable costs of meeting the contractual obligations exceeded the economic benefits expected to be received under the contract. Unavoidable costs are the lower of the costs of fulfilling the contract and any compensation or penalties from the failure to fulfill the contract. The Company records a provision equal to the total unavoidable costs, net of the expected benefits, and the resulting liability is presented on the consolidated statements of financial position.

(k) INCOME TAXES

Income tax expense consists of current and deferred income taxes and includes all taxes based on taxable profits. Current and deferred income taxes are included in net loss except to the extent that they relate to items recognized directly in equity or other comprehensive loss.

Deferred income taxes are determined using the liability method where there are differences between the carrying amounts and tax bases of assets and liabilities, and unused tax losses and credits. Deferred tax assets and liabilities are measured by applying tax rates that are expected to apply when the amounts are realized or settled respectively, based on enacted or substantively enacted tax rates and laws at the end of the current financial reporting year. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be realized and is later reduced if the Company determines it is no longer probable to be realized.

(l) SHARE CAPITAL

The Company's common shares are classified as equity instruments. Incremental costs directly attributable to the issuance of new equity instruments are shown in equity as a deduction from the proceeds of issuance.

Options or warrants issued at the same time as the issuance of common shares are recorded at fair value based on the relative fair value method. Proceeds are allocated between the common shares and the options or warrants based on the relative fair value of each equity instrument.

(m) LOSS PER SHARE

Loss per share is computed by dividing the net loss and comprehensive loss attributable to shareholders of the Company by the weighted average number of common shares outstanding for the year.

Diluted net loss per share is computed by dividing the net loss and comprehensive loss attributable to shareholders of the Company by the weighted average number of common shares outstanding for the year including all additional common shares that would have been outstanding if potentially dilutive equity instruments were converted to common shares. The diluted loss per share is equal to the basic loss per share because the effect of options, convertible debentures and warrants are antidilutive.

(n) SHARE-BASED COMPENSATION

The Company has a share-based compensation plan (the "Plan") described in Note 18(b). Share-based compensation expense relates to stock options as well as cash and equity settled restricted share units ("RSUs").

Cash and equity settled RSUs

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

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

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

Stock options

Compensation costs for options are measured at the grant date based on the fair value of the award and are recognized over the vesting period in net loss, based on the best available estimate of the number of share options expected to vest, with a corresponding increase to reserves. Upon exercise, common shares are issued from treasury and the amount reflected in the reserves is credited to share capital.

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

The Black-Scholes option pricing model incorporates highly subjective assumptions, including volatility and expected time until exercise, which affect the calculated values. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in net loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Options issued to non-employees are measured based on the fair value of the services received at the date of receiving those services. If the fair value of the goods or services cannot be estimated reliably, the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

(o) INVENTORY

The Company defines inventory as all cannabis products after the point of harvest (“Cannabis Inventory”), purchased finished goods for resale, finished goods and work-in-process from processing services, consumable supplies and accessories. Cannabis Inventory includes dried cannabis, cannabis extracts including edible cannabis products and capsules, processing services inventory, and harvested cannabis trim.

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

Products for resale, consumable supplies and accessories are initially recognized at cost and subsequently valued at the lower of cost and NRV. Measurement of cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity and is next of provisions for obsolete and excess inventory. The Company reviews these types of inventory for obsolescence, redundancy and slow turnover to ensure that they are written down and reflected at NRV.

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

(p) GOVERNMENT GRANTS

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

(q) NEW STANDARDS ADOPTED IN THE CURRENT YEAR

The Company has adopted these amendments effective January 1, 2022. The adoption of these amendments did not have an impact on the Company's consolidated Financial Statements.

Amendments to IAS 16, Property, Plant and Equipment –

Amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets

Amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts.

Amendments to IFRS 9, financial instrument

These amendments clarify which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

A number of new and amended accounting standards are effective for annual periods beginning on or after January 1, 2023. The Company has not early adopted the new or amended standards in preparing these Financial Statements. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (effective from the annual period beginning on or after January 1, 2024) –

These narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

Amendments to IAS 1, "Presentation of Financial Statements – Disclosure of Accounting Policies and IFRS Practice Statement 2 – Making Materiality Judgements

The amendments require that an entity disclose its material accounting policies, instead of its significant accounting policies. IFRS Practice Statement 2 was amended to include guidance and examples to explain and demonstrate the application of the four-step materiality process.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (effective from the annual period beginning on or after January 1, 2023) –

The amendments replace the definition of a change in accounting estimates with a definition that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Amendments clarify that a change in accounting estimates resulting from new information or new developments is not the correction of an error. Further, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior-period errors.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Amendments to IAS 1, "Presentation of Financial Statements ("IAS 1") – Non-Current Liabilities with Covenants"

The amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect the classification of a liability as current or non-current. Additional disclosures are required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

The amendments are not expected to have a material impact on the consolidated Financial Statements of Indiva.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these Financial Statements requires management to make estimates and assumptions about the future that affect the amounts recorded in the Financial Statements. These estimates and assumptions are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and assumptions. The effect of a change in accounting estimate is recognized prospectively in the period of change and future periods if the change impacts both periods.

<u>Judgments</u>

Going concern risk assessment

Management considers whether there exists any event(s) or condition(s) that may cast significant doubt on the Company's ability to continue as a going concern. Considerations take into account all available information about the future including the availability of debt and equity financing as well as the Company's working capital balance and future commitments (Note 3).

Classification of convertible debentures as financial liabilities and equity

Management has determined that based on the terms of the convertible debentures, the host debt component should be classified as a financial liability and measured at the contractual cash flow discounted at the market interest rate of a similar debt instrument with no conversion feature while the residual balance, representing the conversion feature, is classified as reserves in equity.

Impairment of assets

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

<u>Estimates</u>

Effective interest rate

In calculating the discounted contractual cash flow on the host debt component of the convertible debenture (Note 17), an estimate of the market interest rate of a similar debt instrument with no conversion features is used. In calculating the fair value of a loan payable (Note 14), a market interest rate is used to discount future cash flows. The market rate is estimated from the market interest rate on similar debt instruments.

Inventory net realizable value

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

(Expressed in Canadian dollars)

Fair value of options and warrants

The fair value of options and warrants is calculated using the Black-Scholes pricing model. In calculating the share-based compensation expense and the fair value of warrants, key estimates, such as the value of the common share, the rate of forfeiture of options granted, the expected life of the option, the volatility of the Company's stock price and the risk-free interest rate are used. Expected volatility is based on the historical volatility of the Company's shares.

5. CORRECTION OF PRIOR PERIOD FINANCIAL STATEMENTS

As disclosed in the Company's unaudited condensed consolidated interim financial statements for the three months ended June 30, 2022, the Company identified an error in the calculation of excise taxes related to additional duties charged by certain provinces and determined an adjustment is required to excise taxes payable on sales for the period of January 1, 2020 to March 31, 2022. As a result, prior period amounts on the consolidated statements of loss and comprehensive loss with respect to excise taxes, cost of sales, and marketing and sales were adjusted to reflect the correct excise tax payable on sales in those periods.

	For the year ended December 31, 2021, as originally reported	Correction	For the year ended December 31, 2021 (corrected)
	$	$	$
Excise taxes	2,961,030	266,350	3,227,380
Cost of goods sold	22,521,733	(48,811)	22,472,922
Marketing and sales	4,941,563	(10,110)	4,931,453
Net loss and comprehensive loss attributable to shareholders	15,009,234	207,430	15,216,664

Accounts payable and accrued liabilities, which include excise taxes payable, and accumulated deficit on the consolidated statements of financial position have been corrected as follows:

	As at December 31, 2021, as originally reported	Correction	As at December 31, 2021 (corrected)
	$	$	$
Accounts payable and accrued liabilities	7,576,842	301,480	7,878,322
Accumulated deficit	(56,246,046)	(301,480)	(56,547,526)

Management assessed the materiality of the correction described above on prior year consolidated financial statements and concluded that these corrections were not material to any prior annual or interim periods.

(Expressed in Canadian dollars)

6. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2022 consisted of trade receivables totaling $4,035,819 (December 31, 2021 - $5,519,988) and taxes receivable totaling $98,163 (December 31, 2021 - $350,480).

Accounts receivable are presented net of expected credit losses totaling $18,792 as at December 31, 2022 (December 31, 2021 - $15,773).

Due to the short-term nature of trade receivables, the carrying value approximates the fair value.

7. INVENTORY

Inventory consisted of the following as at:

	December 31, 2022	December 31, 2021
	$	$
Dried cannabis		
Finished goods	**129,351**	358,730
Work-in-process	**99,878**	1,418,753
Cannabis extracts		
Finished goods	**996,891**	1,230,120
Work-in-process	**1,157,506**	1,811,246
Processing services		
Finished goods	**-**	14,605
Work-in-process	**-**	310
Harvested cannabis trim	**-**	19,899
Packaging, supplies and other inventory	**1,754,421**	1,588,638
Total inventory	**4,138,047**	6,442,301

Inventory expensed to cost of goods sold during the year ended December 31, 2022, was $16,368,378 (year ended December 31, 2021 - $14,795,620). Cost of goods sold during the year ended December 31, 2022, also includes royalties, license fees, shipping, and other costs totalling $7,650,314 (year ended December 31, 2021 - $7,677,303). In the year ended December 31, 2022, the Company recorded inventory write-down totalling $2,231,431 (year ended December 31, 2021 - $2,573,012). The inventory write-offs for the yead ended December 31, 2022, includes disposal of product that did not meet the Company's quality standards, disposals and provisions for aged inventory and write-down of dry flower purchased at a cost that exceed its realizable value.

(Expressed in Canadian dollars)

8. PREPAID EXPENSES AND DEPOSITS

	December 31, 2022	December 31, 2021
	$	$
Rent, security and utility deposits	**9,052**	9,052
Government of Canada surety bond	**303,000**	303,000
Other prepayments	**182,114**	337,959
Total prepaid expenses and deposits	**494,166**	650,011

Other prepayments are primarily composed of prepayments for raw materials, promotional materials, and packaging inventory.

(Expressed in Canadian dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Land $	Building and building improvements $	Leasehold improvements $	Facility equipment $	Vehicle $	Office equipment & furniture $	Right-of-use Assets $	Totals $
Cost								
Balance, January 1, 2021	252,275	18,336,289	61,446	4,476,609	74,665	462,217	1,522,795	25,186,296
Additions	-	83,033	44,552	397,980	-	89,163	8,933	623,661
Disposals	-	-	(2,432)	(23,760)	(3,358)	(29,252)	-	(58,802)
Lease buy-out	-	-	-	207,520	-	-	(524,765)	(317,245)
Transferred from assets in process	-	37,500	(37,500)		-	-	-	-
Transfer between categories	-	320,880	-	285,048	-	-	-	605,928
Balance, December 31, 2021	252,275	18,777,702	66,066	5,343,398	71,307	522,127	1,006,963	26,039,838
Additions	-	40,612	-	1,015,314	-	3,793	-	1,149,719
Transfers to assets held for sale	-	(16,689)	-	(415,758)	-	-	-	(432,447)
Transferred from assets in process	-	6,676	-	585,434	-	-	-	592,110
Balance, December 31, 2022	**252,275**	**18,808,301**	**66,066**	**6,618,388**	**71,307**	**525,919**	**1,006,963**	**27,349,219**
Accumulated depreciation								
Balance, January 1, 2021	-	971,671	1,184	940,413	29,420	261,663	301,936	2,506,287
Depreciation for the period	-	495,116	3,817	539,127	9,357	79,856	375,508	1,502,779
Transfer between building improvements and facility equipment	-	(2,319)	2,319	-	-	-	-	-
Lease buy-out	-	-	-	-	-	-	(317,245)	(317,245)
Disposals	-	-	(2,432)	(14,873)	(2,142)	(29,015)	-	(48,462)
Balance, December 31, 2021	-	1,464,468	4,888	1,464,667	36,635	312,504	360,198	3,643,361
Transfers to assets held for sale	-	(1,161)	-	(135,904)	-	-	-	(137,065)
Depreciation for the period	-	501,953	6,044	582,174	8,915	90,416	159,258	1,349,030
Balance, December 31, 2022	**-**	**1,965,259**	**10,932**	**1,910,936**	**45,551**	**402,920**	**519,726**	**4,855,325**
Carrying amounts as at:								
December 31, 2021	252,275	17,313,234	61,178	3,878,731	34,672	209,623	646,764	22,396,477
December 31, 2022	**252,275**	**16,843,041**	**55,134**	**4,707,452**	**25,757**	**122,999**	**487,237**	**22,493,894**

(Expressed in Canadian dollars)

As at December 31, 2022, $269,946 of the cost of the Company's additions were included in accounts payable and accrued liabilities (December 31, 2021 - $50,123). During the year ended December 31, 2022, equipment deposits totalling $1,313,259 have been applied towards the cost of additions to property, plant and equipment (December 31, 2021 - $410,698) and the Company has mavde further deposits totalling $23,127 towards future purchases (December 31, 2021 - $726,711).

Right-of-use assets includes office space and equipment.

Total depreciation expense for year ended December 31, 2022 was $1,349,030 (year ended December 31, 2021 - $1,502,780), of which $1,148,514 has been capitalized in the production of inventory (years ended December 31, 2021 - $1,225,777).

10. ASSETS IN PROCESS

	Building and building improvements $	Facility equipment $	Office equipment and furniture $	Total $
Balance, January 1, 2021	-	13,205	-	13,205
Additions	327,556	325,576	3,375	656,507
Write-off	-	(3,921)	-	(3,921)
Transferred to property, plant and equipment	(320,880)	(285,048)	-	(605,928)
Balance, December 31, 2021	6,676	49,812	3,375	59,863
Additions	-	621,913	-	621,913
Disposals	-	-	(3,375)	(3,375)
Transfers to held for sale	-	(39,263)	-	(39,263)
Transferred to property, plant and equipment	(6,676)	(585,434)	-	(592,110)
Balance, December 31, 2022	**-**	**47,027**	**-**	**47,027**

11. ASSETS HELD FOR SALE

During the year ended December 31, 2022, the Company committed to a plan to sell certain facility equipment related to cannabis cultivation as a result of the Company's transition away from growing cannabis. Accordingly, these items of property, plant and equipment are presented as assets held for sale on the consolidated statements of financial position. Impairment losses totaling $205,046 were recorded to reduce the carrying amount of the assets to management's estimate of their fair value less costs to sell during the year. During the year ended December 31, 2022, three assets held for sale with a carrying value of $2,490 were sold for proceeds of $2,832.

(Expressed in Canadian dollars)

12. INTANGIBLE ASSETS

	Genetics	Bhang License	Total
Cost	**$**	**$**	**$**
Balance, January 1, 2021	9,375	2,169,688	2,179,063
Disposals	(9,375)	-	(9,375)
Balance, December 31, 2021, and December 31, 2022	**-**	**2,169,688**	**2,169,688**
Accumulated amortization			
Balance, January 1, 2021	814	96,079	96,893
Amortization for the year	469	207,462	207,931
Disposals	(1,283)	-	(1,283)
Balance, December 31, 2021	-	303,541	303,541
Amortization for the year	-	207,460	207,460
Balance, December 31, 2022	**-**	**511,001**	**511,001**
Carrying amounts as at:			
December 31, 2021	-	1,866,147	1,866,147
December 31, 2022	**-**	**1,658,688**	**1,658,688**

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 that are based on a percentage of sales of DeepCell branded products, which are edible cannabis derivatives. This agreement has a term of five years with a right to renew at the Company's option for three additional five-year terms. The prepaid royalties have been expensed as the Company produces and sells DeepCell licensed products. The current portion of the prepaid royalties is based on management's forecast of related sales in the subsequent year.

14. LOAN PAYABLE

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

The remaining 50% of accrued monthly interest was payable, at the option of the Company, either in cash on the last day of each month or payable in arrears on the maturity date. The loan matures on February 23, 2024.

The Company has pledged as security on the Sundial Loan a general security agreement signed by the Company and its subsidiaries, share pledge agreements in all the shares of Indiva Amalco Ltd., Indiva Inc., and Vieva Canada Ltd., a first ranking collateral charge in the principal amount over the real property owned by the Company, and an assignment of insurance proceeds on the property.

Pursuant to the Sundial Investment, the Company settled the previously outstanding loan payable and factoring payable facilities. Settlement included repayment of principal and accrued interest on the loan payable in the amount of $4,731,147, repayment of the factoring payable of $3,707,891, early payment penalty of $25,993, and legal fees totaling $3,500. The unamortized transaction costs related to the preceding loan payable totaling $45,276 were recorded in transaction costs on the consolidated statements of loss and comprehensive loss.

On October 4, 2021, the Company amended the terms of the Sundial Loan. The terms of the Sundial Loan were substantially changed from the previously outstanding loan payable and factoring payable facilities. Accordingly, the Company accounted for the repayment of the preceding loan payable and factoring payable facilities as an extinguishment of those financial liabilities and recognized the Sundial Loan as a new financial liability measured net of transaction costs.

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

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

(Expressed in Canadian dollars)

The following is a continuity of the loan payable:

	$
Sundial Loan at fair value on issuance, February 23, 2021	9,177,656
Additional proceeds on amendment	8,500,000
Loss on loan modification	510,110
Transaction costs	(688,398)
Interest charged on Sundial Loan	1,323,388
Payment of interest on Sundial Loan	(1,071,482)
Accretion of discount and deferred transaction costs	576,255
Loan payable, December 31, 2021	**18,327,529**
Accretion of discount and deferred transaction costs	617,698
Interest charged on Sundial Loan	2,962,786
Payment of interest on Sundial Loan	(2,962,786)
Loan payable, December 31, 2022	**18,945,227**

As at December 31, 2022, the Company was in compliance with all applicable covenants.

15. OTHER LIABILITIES

	December 31, 2022			December 31, 2021		
	Current	**Long-term**	**Total**	Current	Long-term	Total
	$	**$**	**$**	$	$	$
Minimum royalties	**160,222**	**720,838**	**881,060**	156,780	731,393	888,173
Others	**155,414**	**-**	**155,414**	-	-	-
Balance	**315,636**	**720,838**	**1,036,474**	156,780	731,393	888,173

The present value of minimum royalty payments required under terms of the Bhang license agreement at initial recognition was $813,789. During the year ended December 31, 2022, interest accretion of $181,887 was recorded to finance costs in the consolidated statements of loss and comprehensive loss (year ended December 31, 2021 - $171,172).

(Expressed in Canadian dollars)

16. LEASE LIABILITY

	Office space	**Office equipment**	**Facility equipment**	**Total**
	$	**$**	**$**	**$**
Balance, January 1, 2021	811,172	8,308	541,975	1,361,455
Additions	-	-	8,933	8,933
Lease payments	(201,544)	(2,374)	(5,410)	(209,328)
Lease buy-out	-	-	(524,765)	(524,765)
Interest expense	77,636	510	84	78,230
Balance, December 31, 2021	687,264	6,444	20,817	714,525
Lease payments	(204,465)	(2,379)	(8,314)	(215,158)
Interest expense	63,798	375	480	64,353
Balance, December 31, 2022	**546,597**	**4,440**	**12,983**	**564,020**
Current, December 31, 2021	140,640	2,000	7,817	150,457
Non-current, December 31, 2021	546,616	4,444	13,000	564,068
Current, December 31, 2022	**151,090**	**2,158**	**9,497**	**162,745**
Non-current, December 31, 2022	**395,507**	**2,282**	**3,486**	**401,275**

During the year ended December 31, 2022, the Company recognized $83,252 in variable lease payments included in general and administrative expenses on the consolidated statements of loss and comprehensive loss (year ended December 31, 2021 - $137,330).

At December 31, 2022, the Company's undiscounted amount of future minimum lease payments are as follows:

	1 Year	2 to 3 Years	4 – 5 Years	**Total**
	$	$	$	**$**
Office and warehouse space	(204,634)	(338,525)	(103,125)	**(646,284)**
Facility equipment	(8,297)	(5,080)	-	**(13,377)**
Office equipment	(2,374)	(2,374)	-	**(4,748)**
Minimum lease payments	(215,305)	(345,980)	(103,125)	**(664,410)**

17. CONVERTIBLE DEBENTURES

(a) DECEMBER 2019 CONVERTIBLE DEBENTURES

On December 23, 2019, the Company closed a private placement of unsecured convertible debentures in the aggregate principal amount of $2,115,000. The debentures matured on 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 were considered to be compound instruments, comprising a liability and a conversion feature. As a result, the liability and equity components were 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 was the difference between the principal amount and the initial carrying value of the financial liability. The equity component was recorded in reserves on the consolidated statements of financial position. On issuance, $1,443,747 was recorded as a financial liability and $648,453 was recorded to reserves. The Company paid transaction costs in connection with issuance in the amount of $2,800 and legal costs of $20,000. The debentures, net of the equity component, were accreted using the effective interest method over the term of the debentures such that the carrying value of the financial liability would equal the principal balance at maturity using an effective interest rate of 24.7%.

During the year ended December 31, 2021, debentures with an aggregate principal totaling $60,000 were converted by the holders into 300,000 common shares of the Company. Upon conversion, a carrying value of $46,817 from convertible debentures and $18,444 from equity reserves was reclassified to share capital for the year ended December 31, 2021.

There were no conversions during the year ended December 31, 2022.

(b) JANUARY 2020 CONVERTIBLE DEBENTURES

On January 20, 2020, the Company closed the final tranche of its private placement of unsecured convertible debentures in the aggregate principal amount of $1,040,000. The debentures mature January 20, 2023, bear interest at the rate of 10% per annum, payable semi-annually on the last day of June and December of each year, commencing on June 30, 2020. The debentures were issued at a price of $1,000 per debenture with each debenture being convertible, at the option of the holder, into 5,000 common shares in the capital of the Company at a conversion price of $0.20 per share.

The convertible debentures are considered to be compound instruments comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 25.0%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the consolidated statements of financial position. On issuance, $692,920 was recorded as a financial liability and $321,380 was recorded to reserves. The Company paid transaction costs in connection with the issuance in the amount of $24,500 and legal costs of $1,200. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying fair value of the financial liability will equal the principal balance at maturity using an effective interest rate of 24.5%.

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

There were no conversions during the year ended December 31, 2022.

(c) FEBRUARY 2020 CONVERTIBLE DEBENTURES

On February 4, 2020, the Company closed a non-brokered private placement of unsecured convertible debentures in the aggregate principal amount of $1,500,000. The debentures mature February 4, 2023, bear interest at a rate of 10% per annum, payable semi-annually, on the last day of June and December of each year. The debentures were issued at a price of $1,000 per debenture with each debenture being convertible, at the option of the holder, into 4,000 common shares in the capital of the Company at a conversion price of $0.25 per share.

The convertible debentures are considered to be compound instruments, comprising a liability and a conversion feature. As a result, the liability and equity components have been presented separately. The initial carrying value of the liability was calculated by discounting the stream of future payments of principal and interest using a market interest rate of 22.5%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the consolidated statements of financial position. On issuance, $1,098,092 was recorded as a financial liability and $400,908 was recorded to reserves. The Company paid legal costs of $1,000. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying fair value of the financial liability will equal the principal balance at maturity using an effective interest rate of 22.3%.

There were no conversions of the February 2020 convertible debentures in the years ended December 31, 2022 and 2021.

(d) AMENDMENT OF CONVERTIBLE DEBENTURES

On December 23, 2022, the Company entered into an agreement to amend certain of the unsecured convertible debentures in the aggregate principal amount of $2,740,000, of the total outstanding principal amount of $2,990,000, to extend the maturity date of the remaining outstanding debentures to December 31, 2024. The interest rate of 10% per annum will remain unchanged and will continue to be payable semi-annually. The conversion price of the debentures was reduced to $0.15 per common share at any time prior to the close on the business day immediately prior to the maturity date. Debentures whose Holders did not choose to participate in the Amendment continue to hold such Debentures under the original terms.

The amendment was treated as a debt extinguishment under IFRS 9 as the terms are substantially different and the discounted present value of the cash flows under the new terms is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. The net impact of the debt extinguishment and the recognition of the amended debt resulted in a loss of $33,312 recorded in the consolidated statements of loss and comprehensive loss.

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 20%. Using the residual method, the carrying value of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in reserves on the consolidated statements of financial position. On issuance, $2,293,570 was recorded as a financial liability and $446,430 was recorded to reserves. The Company incurred listing costs of $18,024. The debentures, net of the equity component, are accreted using the effective interest method over the term of the debentures such that the carrying value of the financial liability will equal the principal balance at maturity using an effective interest rate of 19.95%.

(Expressed in Canadian dollars)

Convertible debentures consist of the following:

	Debt	Equity	Total
	$	$	$
Balance, January 1, 2021	2,442,153	910,228	3,352,381
Accretion interest on debenture discount	277,054	-	277,054
Accretion of transaction costs	11,384	-	11,384
Conversion to common shares	(131,021)	(44,711)	(175,732)
Balance, December 31, 2021	2,599,570	865,517	3,465,087
Accretion interest on debenture discount	344,267	-	344,267
Accretion of transaction costs	11,384	-	11,384
Financial liability extinguished	(2,733,340)	(865,517)	(3,598,857)
New liability	2,278,483	-	2,278,483
Equity portion transferred to contributed surplus on extinguishment of financial liability	-	446,430	446,430
Balance, December 31, 2022	**2,500,478**	**446,430**	**2,946,794**
Less current portion	**250,000**	**-**	**-**
Long-term, December 31, 2022	**2,250,478**	**-**	**-**

A reconciliation of interest and accretion expense on the convertible debentures in the year ended December 31, 2022 and 2021, is as follows:

	2022	2021
	$	$
Accretion interest on debenture discount	**344,267**	202,539
Interest expense in the year	**299,000**	228,393
Total interest and accretion on convertible debentures expensed	**643,267**	430,932

Interest expense payable, opening balance	**-**	153,868
Interest expense in the year	**299,000**	303,339
Interest expense paid in shares	**(5,750)**	(61,500)
Interest expense paid in cash	**(277,500)**	(395,707)
Interest expense included in accounts payable and accrued liabilities	**15,750**	-

On July 19, 2022, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of $5,750 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 33,821 shares were issued, which includes 24,998 shares issued to related parties to related parties. The Company's common shares had a fair value of $0.17per share and accordingly a $1,015 loss on issuance of shares was recorded in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian dollars)

On December 24, 2021, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of $15,750 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 57,269 shares were issued, which includes 36,955 shares issued to related parties. The Company's common shares had a fair value of $0.275 per share and accordingly a $4,295 loss on issuance of shares was recorded in the consolidated statements of loss and comprehensive loss.

On January 26, 2021, the Company issued shares pursuant to a shares for debt agreement to satisfy an aggregate of $45,750 of the Company's outstanding debts for accrued but unpaid interest on convertible debentures. An aggregate of 183,000 shares were issued, which includes 152,000 shares issued to related parties. The Company's common shares had a fair value of $0.36 per share and accordingly a $20,130 loss on issuance of shares was recorded in the consolidated statements of loss and comprehensive loss.

18. SHARE CAPITAL

(a) CAPITAL STOCK

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

As at December 31, 2022, a total 147,297,037 (December 31, 2021 – 146,150,202) common shares were issued and outstanding. No special shares have been issued or are outstanding.

On October 5, 2022, the Company issued 134,626 common shares at a fair value on issuance of $0.15 per share related to the vesting of RSUs for an officer and an employee.

On July 19, 2022, the Company issued 978,388 common shares at a fair value on issuance of $0.17 per share to settle outstanding accounts payable and 33,821 common shares to settle unpaid interest on convertible debentures.

WARRANTS, FINDERS' UNITS AND FINDERS' WARRANTS

	Warrants outstanding	Weighted average exercise price
	#	$
Outstanding, December 31, 2020	18,240,440	0.41
Issued	4,433,333	0.45
Expired	(383,169)	(0.95)
Exercised	(9,448,333)	(0.39)
Outstanding, December 31, 2021	12,842,271	0.42
Expired	(29,942)	0.54
Outstanding, December 31, 2022	**12,812,329**	**0.42**

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

(Expressed in Canadian dollars)

During the year ended December 31, 2022, a total of 29,942 warrants with a carrying value in reserves of $12,875 expired (2021 – 383,169 warrants with a carrying value of $999,079). The carrying value of expired warrants is transferred to contributed surplus on the expiration date.

All warrants outstanding as at December 31, 2022 are exercisable.

The following warrants remain outstanding as at December 31, 2022:

Warrant description	# of warrants	Expiry date	Exercise price
	#		$
Warrants issued on June 25, 2020 equity offering	1,608,333	6/25/2023	0.40
Warrants issued on August 10, 2020 equity offering	6,694,997	8/10/2023	0.40
Warrants issued to brokers on August 10, 2020 equity offering	75,666	8/10/2023	0.30
Incentive warrants	4,433,333	9/30/2026	0.45
Total warrants and weighted average exercise price	**12,812,329**		**0.42**

As at December 30, 2022, the warrants outstanding have a weighted average remaining life of 1.68 years.

(b) SHARE-BASED COMPENSATION

The equity compensation plans that the Company has in place relate to grants issued to officers, directors, employees and consultants, and were approved by the Board of Directors in 2017. The plan was amended June 24, 2021, as an Omnibus Incentive Plan ("Omnibus Plan"), which also allows for the issuance of RSUs and was further amended on June 23, 2022.

During the year ended December 31, 2022, the Company recognized share-based compensation expense of $585,911 (year ended December 31, 2021 - $473,821) related to stock options and RSUs included in operating expenses in the consolidated statements of loss and comprehensive loss. Share-based compensation for the year ended December 31, 2022, totalling $137,207 (year ended December 31, 2021 - $56,294) related to options issued to production employees is included in the cost of inventory.

The maximum number of common shares reserved for issuance under all share-based compensation arrangements of the Company may not exceed 10% of the Company's outstanding common shares. As at December 31, 2022, based on the Company's total common shares outstanding, a total of 14,729,704 (December 31, 2021 – 14,615,020) stock options and RSUs may be issued and outstanding. Based on this, the Company could grant up to 2,524,485 (December 31, 2021 – 4,671,686) additional stock options or RSUs beyond what was issued and outstanding as at December 31, 2022. TSXV approval is required to reserve the related common shares for issuance. A maximum of 4,800,000 RSUs may be issued under the plan.

(Expressed in Canadian dollars)

(I) **RESTRICTED SHARE UNITS**

On February 1, 2022, the Company granted 2,260,497 RSUs to directors, officers and employees of the Company. The units vest one year from the grant date. The fair value of the shares on the grant date totalled $678,149 or $0.30 per RSU, and the expense is recognized in share-based compensation over the vesting period. There were 1,460,499 RSUs issued to officers and employees of the Company that are accounted for as cash settled. There were 799,998 RSUs issued to directors of the Company that are accounted for as equity settled.

On May 18, 2022, the Company granted 222,222 RSUs to consultants of the Company. The RSUs vest one year from the grant date and each RSU entitles the holder to one common share upon vesting. The fair value of the shares on the grant date totalled $55,555 or $0.25 per RSU and the expense is recognized in share-based compensation over the vesting period. These RSUs are accounted for as equity settled. In the year ended December 31, 2022, the Company has recorded share-based compensation expense related to all equity settled RSUs totalling $407,693.

On December 23, 2022, the Company granted 425,000 RSUs to employees of the Company. The units vest one year from the grant date. The fair value of the shares on the grant date totalled $51,000 or $0.12 per RSU, and the expense is recognized in share-based compensation over the vesting period.

In the year ended December 31, 2022, the Company has recorded share-based compensation expense related to the cash settled RSUs totalling $150,656. The Company has recorded a liability related to the outstanding cash settled RSUs at December 31, 2022 totalling $150,656 in accounts payable and accrued liabilities in the consolidated statements of financial position.

The following table summarizes the movement in outstanding RSUs:

	Equity settled	**Cash settled**	**Total**
Outstanding, December 31, 2020	-	-	-
Granted	555,555	680,557	1,236,112
Redeemed	(555,555)	(680,557)	(1,236,112)
Outstanding, December 31, 2021	-	-	-
Granted	1,022,220	1,885,499	2,907,719
Redeemed	-	(275,000)	(275,000)
Outstanding, December 31, 2022	**1,022,220**	**1,610,499**	**2,632,719**

(II) **STOCK OPTIONS**

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 was as follows:

(Expressed in Canadian dollars)

	Number of options #	Weighted average exercise price $
Outstanding, December 31, 2020	7,536,667	0.56
Granted	4,170,000	0.34
Exercised	(200,000)	0.42
Forfeited	(1,563,333)	0.47
Outstanding, December 31, 2021	9,943,334	0.49
Granted	3,260,000	0.06
Expired	(1,895,000)	0.14
Forfeited and terminations	(1,535,834)	0.39
Outstanding, December 31, 2022	**9,772,500**	**0.34**

On December 22, 2022, the Company approved the grant of 1,580,000 stock options to directors, officers and employees of the Company. The options are exercisable into common shares of the Company at an exercise price of $0.15 per common share. All options have a five-year term, which expires December 22, 2027, and vest on each anniversary date of the grant over the three years following the grant date with the exception of 200,000 options which vest immediately.

On June 3, 2022, the Company approved the grant of 1,680,000 stock options to directors, officers and employees of the Company. The options are exercisable into common shares of the Company at a price of $0.21 per common share. One-third of all options vest on each anniversary date of the grant over the three years following the grant date and have a five-year term. On December 15, 2021, the Company approved the grant of 2,130,000 stock options to employees, directors, and consultants of the Company. The options are exercisable into common shares of the Company at a price of $0.275 per common share. 1,880,000 of the options issued to employees and directors have a five-year term, which expires December 15, 2026, with one-third of the options vesting on each anniversary date of the grant over the three years following the grant date. 150,000 options were issued to a director of the Company and have a five-year term, which expires December 15, 2026, with 50,000 vesting immediately, and 50,000 vesting on each anniversary date of the grant over two years. 100,000 options were issued to consultants of the Company and have a two-year term expiring December 15, 2024, with 25% of the options vesting on each of April 12, 2021, July 12, 2022, October 12, 2022, and January 12, 2023.

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

On June 7, 2021, the Company approved the grant of 1,190,000 stock options to employees of the Company. The options are exercisable into common shares of the Company at a price of $0.40 per common share and have a five-year term, which expires June 7, 2026. One-third of all options vest on each anniversary date of the grant over the three years following the grant date.

(Expressed in Canadian dollars)

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

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

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

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

The grant date fair value is calculated using the Black-Scholes pricing model and the inputs below. Expected volatility is based on the average volatility of the Company. The exercise price used in the pricing model is that of the respective option granted.

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

	Year ended December 31, 2022	Year ended December 31, 2021
Share price	**$0.12 - $0.20**	$0.275 - $0.34
Expected dividend yield	**$nil**	$nil
Volatility	**102.6% - 144.9%**	84.27% - 147.8%
Expected life (years)	**1 to 4**	1 to 4
Risk-free rate	**2.96% - 4.25%**	0.30 – 1.26%

(Expressed in Canadian dollars)

The following table presents information related to stock options at December 31, 2022:

Weighted average exercise price	Number of Options	Exercisable	Weighted average remaining life (years)
$0.15	1,575,000	200,000	4.89
$0.21	1,640,000	-	4.42
$0.27	1,835,000	653,332	3.29
$0.30	474,166	247,501	1.92
$0.40	2,862,334	2,278,262	2.26
$0.45	200,000	200,000	1.07
$0.59	150,000	100,000	3.16
$0.75	266,000	266,000	1.48
$0.80	580,000	580,000	0.88
$0.87	140,000	140,000	0.15
$0.48	**9,722,500**	**4,521,345**	**3.28**

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

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

(Expressed in Canadian dollars)

19. OPERATING EXPENSES BY NATURE

	2022	2021
	$	$
Salaries and benefits	**4,709,655**	3,850,277
Marketing and sales	**4,076,347**	3,177,006
Licenses and permits	**1,091,302**	1,335,365
Professional fees	**993,522**	1,036,488
Research and development material	**727,890**	244,337
Insurance	**589,651**	567,668
Share-based compensation	**585,911**	473,821
Depreciation and amortization	**410,484**	484,934
Travel, meals and entertainment	**360,247**	163,852
Investor relations and public company costs	**289,569**	404,434
Rent, utilities and facility costs	**179,405**	266,885
Consulting fees	**120,855**	162,024
Office, telecommunications and IT	**112,788**	223,295
Total operating expenses	**14,247,626**	12,390,386

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:

	December 31, 2022	December 31, 2021
Stock options	**9,772,500**	9,943,334
RSUs	**2,632,719**	-
Warrants	**12,812,329**	12,842,271
Convertible debentures	**19,266,667**	13,450,000

(Expressed in Canadian dollars)

21. SUPPLEMENTAL CASH FLOWS

Changes in working capital items for year ended December 31, 2022 and 2021 are comprised of the following:

	2022	2021
	$	$
Accounts receivable	1,733,467	(1,151,508)
Biological assets	-	69,829
Inventory	1,221,337	(1,603,132)
Prepaid expenses and deposits	231,822	(38,276)
Accounts payable and accrued liabilities	4,454,879	(892,581)
Other liabilities	148,301	(231,277)
Onerous contract	-	(5,823,412)
Deferred revenue	(4,025)	(284,306)
	7,785,781	(9,954,663)

22. FINANCE COSTS

Finance costs consist of the following for the year ended December 31, 2022 and 2021:

	2022	2021
	$	$
Interest on loan payable (Note 14)	2,962,786	1,424,566
Interest on convertible debentures (Note 17)	299,000	303,339
Accretion of discount on loan payable (Note 14)	356,699	451,169
Accretion on convertible debentures (Note 17)	344,267	277,054
Amortization of deferred financing costs	272,385	304,151
Interest and penalty on promissory note	136,940	79,240
Interest on lease liabilities (Note 16)	64,652	78,320
Interest on other liabilities (Note 15)	181,887	171,172
Interest on factored invoices	-	148,061
Other interest and bank charges (recovery)	99,363	(212,986)
	4,717,979	3,023,996

23. SEGMENTED INFORMATION

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

(Expressed in Canadian dollars)

24. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, other liabilities, loan payable, and convertible debentures. The fair value of accounts receivable and accounts payable and accrued liabilities are equivalent to their carrying values given their short maturity period. Interest accretion on other liabilities is at the Company's effective interest rate, and accordingly, the carrying value is equivalent to the fair value. The loan payable was recorded using the Company's effective interest rate and accordingly its' carrying values approximates the fair value on the issuance date. There has been no material change to the Company's overall effective interest rate as at December 31, 2022 and accordingly the fair value of the Company's long-term financial liabilities, comprising convertible debentures, and loan payable approximates their carrying value as at December 31, 2022.

(a) Foreign currency risk

As at December 31, 2022, the Company did not hold any cash denominated in a foreign currency (December 31, 2021 - $nil).

(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 December 31, 2022	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 - 5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	12,654,341	12,654,341	12,654,341	-	-
Other liabilities	1,036,474	2,419,434	353,864	427,163	1,638,407
Loan payable	18,945,227	19,751,905	-	19,751,905	-
Lease liabilities	564,020	664,410	215,305	345,980	103,125
Convertible debentures	2,500,478	2,990,000	250,000	2,740,000	-
Total	35,700,540	38,480,090	13,423,510	23,265,048	1,741,532

(Expressed in Canadian dollars)

As at December 31, 2021	Carrying amount	Contractual cash flows	Year 1	Year 2 - 3	Year 4 - 5 and thereafter
	$	$	$	$	$
Accounts payable and accrued liabilities	6,548,150	6,548,150	6,548,150	-	-
Taxes payable	1,028,691	1,028,691	1,028,691	-	-
Other liabilities	888,173	2,068,271	189,000	406,823	1,472,448
Loan payable	18,327,529	19,751,905	-	19,751,905	-
Lease liabilities	714,525	877,160	215,109	422,021	402,282
Convertible debentures	2,599,570	3,294,907	810,000	2,180,000	-
Total	**30,106,638**	**33,569,084**	**8,790,950**	**22,760,749**	**1,874,730**

(c) Credit risk

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

The Company has assessed that it has limited customer credit risk due to the fact that accounts receivable are primarily from the sale of cannabis to government agencies and large retail outlets and have payment terms of 30 - 60 days. The Company has recorded an expected credit loss on accounts receivable for the year ended December 31, 2022, totalling $3,019.

During the year ended December 31, 2022, the Company had gross sales of $32,014,832 to three major customers (year ended December 31, 2021 - $32,273,533). These customers each accounted for over 10% of the Company's total revenue for the year ended December 31, 2022. Total amounts receivable from these customers at December 31, 2022 was $3,512,837 (December 31, 2021 - $4,810,202).

As at December 31, 2022, the Company's aging of receivables was approximately as follows:

	December 31, 2022	**Expected credit loss rate**	December 31, 2021	Expected credit loss rate
	$	%	$	%
1 – 60 days	3,994,761	0.5	5,216,325	0.1
61 – 120 days	41,058	3.0	303,663	3.0
Greater than 121 days	-	-	-	-
Total	**4,035,819**	0.5	5,519,988	0.3

(d) Interest rate risk

The interest rates on the loan payable and convertible debentures are fixed, and accordingly, are not subject to interest rate risk.

(Expressed in Canadian dollars)

25. CAPITAL MANAGEMENT

The Company considers its capital under management to be total debt and equity of $23,594,237 (December 31, 2021 – $32,956,218), as shown below:

	December 31, 2022	December 31, 2021
	$	$
Total debt		
Loan payable	**18,945,227**	18,327,529
Convertible debentures	**2,500,478**	2,599,570
Total debt	**21,445,705**	20,927,099
Total equity	**2,148,532**	12,029,119

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

Under the terms of the Sundial Loan the Company must maintain a cash balance, at all times, of not less than $2,000,000.

26. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.5% (2021 - 26.5%) to income before taxes. The reasons for the differences are as follows:

	December 31, 2022	December 31, 2021
	$	$
Loss before taxes	**(11,050,355)**	(15,483,618)
Statutory tax rate	**26.5%**	26.5%
Expected tax benefit resulting from loss	**(2,928,344)**	(4,103,159)
Non-deductible expenses and other	**252,153**	156,290
Deductible temporary differences for which no deferred tax asset is recognized	**2,557,888**	3,679,920
Income tax recovery	**(118,303)**	(266,954)

(Expressed in Canadian dollars)

The unrecognized temporary differences of the Company are comprised of:

	December 31, 2022	December 31, 2021
	$	$
Non-capital loss carry forward	**59,098,008**	47,637,561
Intangible assets	-	(617,150)
Right of use liability	**564,021**	714,525
Inventory	**1,515,218**	2,525,081
Unamortized share issuance costs	**892,299**	2,010,019
Property, plant and equipment	**696,474**	-
Other deductible temporary differences	**293,484**	323,971
Total	**63,059,505**	52,594,007

The effect of temporary differences and loss carry forwards that give rise to significant portions of the deferred tax assets and liabilities, which has been recognized during the year ended December 31, 2022, are as follows:

	December 31, 2021	Recognized in net loss	Recognized in equity	December 31, 2022
	$	$	$	$
Deferred tax assets				
Non-capital losses carried forward	662,419	(394,298)	-	**268,121**
Deferred tax liabilities				
Intangible assets	-	156,782	-	**156,782**
ROU asset	(171,393)	42,275	-	**(129,118)**
Property, plant and equipment	(175,613)	60,604	-	**(115,099)**
Convertible debentures	(315,413)	252,940	(118,303)	**(180,777)**
	(662,419)	512,601	(118,303)	**(268,121)**
Net deferred tax	-	118,303	(118,303)	**-**

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

Based on this assessment, a portion of the deferred tax assets as at December 31, 2022 and 2021 have not been recognized in the consolidated financial statements.

As at December 31, 2022, the Company had non-capital loss carry forwards of approximately $58,080,717 (2021 - $48,484,334) that expire between 2036 and 2042.

(Expressed in Canadian dollars)

27. COMMITMENTS

In addition to the lease liability commitments disclosed in Note 16, the Company has contractual obligations for contractors, consultants, IT services, facility services and equipment and minimum payments under license agreements with terms remaining of up to three years. The annual minimum payments payable under these obligations are as follows:

	$
Next 12 months	1,120,209
2 – 3 years	1,788
Thereafter	-
Total	**1,121,997**

Subsequent to December 31, 2022, the Company entered into commitments totalling $758,155. These commitments are primarily composed of production supplies, cannabis inputs and marketing supplies. These commitments are payable over the next 12 months.

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

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

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

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 year ended December 31, 2022 and 2021 was as follows:

	2022	**2021**
	$	$
Short-term key management personnel compensation	**1,035,551**	1,094,413
Share-based payments	**553,589**	482,552
Directors' fees	**62,500**	52,500

29. RELATED-PARTY TRANSACTIONS

In the year ended December 31, 2022, the Company settled interest payments in exchange for common shares in the Company. The debenture holders include certain related parties of the Company, including directors and officers of the Company. An aggregate of 24,998 (2021- 51,815) common shares was issued to the related parties to settle interest owing to settle accrued interest totaling $4,250 (2021- $14,250).

Interest payments on convertible debentures held by related parties paid in cash during the year ended December 31, 2022, was $60,000 (2021 - $64,250).

30. COMPARATIVE FIGURES

Certain comparative amounts in these Financial Statements have been re-classified as a result of a change in presentation of certain expenses on a functional basis during the current year. The Company notes no material changes have been made to any of these figures other than classifications within operating expenses and there is no change to total assets, total liabilities and equity, or total comprehensive loss attributable to shareholders.

31. SUBSEQUENT EVENT

On February 4, 2023, $250,000 of Convertible Debentures held by the holder who did not choose to participate in the amendment matured. The Company repaid the principal of the Convertible Debenture on that date.

On January 6, 2023, the Company issued 131,246 common shares at a fair value on issuance of $0.12 per share to settle outstanding interest on convertible debentures. 118,246 of the common shares were issued to related party debenture holders.