

**CordovaCann Corp.**  
(Formerly LiveReel Media Corporation)

**Consolidated Financial Statements**  
**For the years ended June 30, 2018, 2017 and 2016**  
(Expressed in Canadian Dollars)

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To the Shareholders and Board of Directors of  
CordovaCann Corp.

## **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statement of financial position of CordovaCann Corp. (the “Company”) as of June 30, 2018, the related consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the year then ended and the related notes, comprising a summary of significant accounting policies and other explanatory information (collectively referred to as the “financial statements”).

In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2018, and the its consolidated financial performance and its cash flows for the year then ended, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## **Material Uncertainty Related to Going Concern**

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which indicates that the Company incurred a comprehensive loss of \$4,865,249 during the year ended June 30, 2018 and, has a total accumulated deficit of \$13,734,265 at June 30, 2018. As stated in Note 1 to the financial statements, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that casts substantial doubt on the Company’s ability to continue as a going concern.

## **Basis for Opinion**

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors’ Responsibility**

Our responsibility is to express an opinion on the Company's financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"). Those standards require that we plan and perform the audit to obtain reasonable

assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Those standards also require that we comply with ethical requirements, including independence. We are required to be independent with respect to the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We are a public accounting firm registered with the PCAOB.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Accordingly, we express no such opinion.

Our audit also included evaluating the appropriateness of accounting policies and principles used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a reasonable basis for our audit opinion.

#### **Other Matter**

The financial statements of CordovaCann Corp. as of June 30, 2017 and 2016 and for the years then ended were audited by another auditor who expressed an unmodified opinion on those statements on October 30, 2017.

A handwritten signature in black ink that reads "Marcum LLP". The signature is written in a cursive, flowing style.

Marcum LLP

We have served as the Company's auditor since 2018.

Houston, Texas  
October 29, 2018

## Report of Independent Registered Public Accounting Firm

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To the Shareholders of LiveReel Media Corporation:

We have audited the accompanying consolidated financial statements of LiveReel Media Corporation and its subsidiary, which comprise the consolidated statement of financial position as at June 30, 2017 and 2016, and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiary as at June 30, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on the Company's ability to continue as a going concern.

### Other Matter

The consolidated financial statements of LiveReel Media Corporation as at June 30, 2015, and for the year then ended, were audited by another auditor who expressed an unqualified opinion on those consolidated financial statements in their report dated February 18, 2016.

*MNP* LLP

Toronto, Ontario  
October 30, 2017

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**  
LLP

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Consolidated Statements of Financial Position

As at June 30, 2018 and June 30, 2017

(Expressed in Canadian Dollars)

<b>As at</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	<b>3,250,697</b>	-
Promissory note ( <i>Note 14</i> )	<b>15,802</b>	-
Prepaid expense	<b>325,659</b>	6,756
Advances to joint venture ( <i>Note 5</i> )	<b>610,705</b>	-
	<b>4,202,863</b>	6,756
Investment in joint venture ( <i>Note 5</i> )	<b>534,311</b>	-
Equipment ( <i>Note 4</i> )	<b>138,418</b>	-
Total assets	<b>4,875,592</b>	6,756
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	<b>320,321</b>	88,415
Due to related parties ( <i>Note 6</i> )	-	170,170
Related party notes payable ( <i>Note 7</i> )	-	374,647
Total liabilities	<b>320,321</b>	633,232
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital	<b>14,480,241</b>	7,880,660
Contributed surplus	<b>3,808,611</b>	361,196
Accumulated deficit	<b>(13,734,265)</b>	(8,868,332)
Accumulated other comprehensive income	<b>684</b>	-
Total shareholders' equity (deficiency)	<b>4,555,271</b>	(626,476)
Total liabilities and shareholders' equity (deficiency)	<b>4,875,592</b>	6,756

Going concern (*Note 1*)

Related party transactions (*Note 9*)

Commitments (*Note 12*)

Subsequent events (*Note 17*)

Approved on behalf of the Board:

\_\_\_\_\_  
"Henry J. Kloeppe", Director  
(signed)

\_\_\_\_\_  
"Thomas M. Turner, Jr.", Director  
(signed)

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

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Consolidated Statements of Operations and Comprehensive Loss

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	2018	2017	2016
	\$	\$	\$
<b>Revenue (Note 4)</b>	-	-	-
<b>Cost of sales (Note 4)</b>	12,770	-	-
	(12,770)	-	-
<b>Expenses</b>			
Consulting fees	977,410	-	-
Share based compensation (Note 10, 11)	3,447,415	-	-
Professional fees	225,151	8,250	2,500
Shareholders information services	52,714	19,107	16,011
Office and general	127,865	5,468	5,879
Financing costs	14,845	55,580	49,322
Exclusivity fee (Note 12(a))	42,550	-	-
Foreign exchange gain	(27,196)	-	-
	4,860,754	88,405	73,712
<b>Loss before other income</b>	(4,873,524)	(88,405)	(73,712)
Share of profit of a joint venture (Note 5)	(7,591)	-	-
<b>Net loss</b>	(4,865,933)	(88,405)	(73,712)
<b>Loss per share - basic and diluted</b>	(0.15)	(0.00)	(0.00)
<b>Weighted average number of outstanding common shares - basic and diluted</b>	32,255,112	23,521,744	23,521,744
<b>Net loss</b>	(4,865,933)	(88,405)	(73,712)
Foreign exchange translation adjustment	684	-	-
<b>Comprehensive loss</b>	(4,865,249)	(88,405)	(73,712)

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

## CordovaCann Corp.

(formerly LiveReel Media Corporation)

Consolidated Statements of Changes in Equity (Deficiency)

As at June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity
<b>Balance, July 1, 2015</b>	23,521,744	\$ 7,880,660	\$ 361,196	\$ (8,706,215)	\$ -	\$ (464,359)
Net loss	-	-	-	(73,712)	-	(73,712)
<b>Balance, June 30, 2016</b>	23,521,744	\$ 7,880,660	\$ 361,196	\$ (8,779,927)	\$ -	\$ (538,071)
Net loss	-	-	-	(88,405)	-	(88,405)
<b>Balance, June 30, 2017</b>	23,521,744	\$ 7,880,660	\$ 361,196	\$ (8,868,332)	\$ -	\$ (626,476)
Common shares issued for settlement of shareholder loan ( <i>Note 8(a)</i> )	7,681,110	384,055	-	-	-	384,055
Common shares issued for private placement ( <i>Note 8(b)</i> )	5,532,500	553,250	-	-	-	553,250
Common shares issued for private placement ( <i>Note 8(c)</i> )	890,074	959,251	-	-	-	959,251
Issuance of options ( <i>Note 11</i> )	-	-	1,177,727	-	-	1,177,727
Issuance of warrants ( <i>Note 10</i> )	-	-	2,269,688	-	-	2,269,688
Common shares issued for private placement ( <i>Note 8(d)</i> )	2,410,800	4,703,025	-	-	-	4,703,025
Foreign currency translation gain	-	-	-	-	684	684
Net loss	-	-	-	(4,865,933)	-	(4,865,933)
<b>Balance, June 30, 2018</b>	<b>40,036,228</b>	<b>\$ 14,480,241</b>	<b>\$ 3,808,611</b>	<b>\$ (13,734,265)</b>	<b>\$ 684</b>	<b>\$ 4,555,271</b>

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

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Consolidated Statements of Cash Flows

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

	2018	2017	2016
	\$	\$	\$
<b>Operating activities</b>			
Net loss for the year	(4,865,933)	(88,405)	(73,712)
Adjusted for non-cash items:			
Accrued related party interest	-	55,580	49,322
Shares issued on consulting agreement ( <i>Note 8</i> )	322,862	-	-
Share based compensation ( <i>Note 10, 11</i> )	3,447,415	-	-
Share of profit of a joint venture ( <i>Note 5</i> )	(7,591)	-	-
Depreciation ( <i>Note 4</i> )	12,770	-	-
Write down of receivables	-	5,239	-
<b>Changes in non-cash working capital items:</b>			
Prepaid expense	(318,903)	(2,620)	(4,136)
Receivables	-	(1,600)	(2,676)
Due to related parties	-	-	6,215
Accounts payable and accrued liabilities	231,906	29,386	4,685
Cash used in operating activities	(1,177,474)	(2,420)	(20,302)
<b>Investing activities</b>			
Purchase of equipment	(151,188)	-	-
Investment in joint venture ( <i>Note 5</i> )	(526,720)	-	-
Advances to joint venture ( <i>Note 5</i> )	(610,705)	-	-
Promissory note ( <i>Note 14</i> )	(15,802)	-	-
Cash used in investing activities	(1,304,415)	-	-
<b>Financing activities</b>			
Advances from related parties	-	2,420	20,302
Repayments of related parties ( <i>Note 6</i> )	(117,081)	-	-
Repayments of related party notes payable ( <i>Note 7</i> )	(43,681)	-	-
Proceeds from issuance of common shares ( <i>Note 8</i> )	5,892,664	-	-
Proceeds from financing activities	5,731,902	2,420	20,302
Effect of exchange rate changes on cash	684	-	-
<b>Net increase in cash and cash equivalents</b>	<b>3,250,697</b>	-	-
<b>Cash and cash equivalents, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents, end of year</b>	<b>3,250,697</b>	<b>-</b>	<b>-</b>
<b>Supplementary cash flow information</b>			
Interest paid	107,146	-	-
Non-cash loan settlement ( <i>Note 6, 7</i> )	384,055	-	-
Taxes paid	-	-	-

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



# **CordovaCann Corp.**

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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## **1. NATURE OF OPERATIONS AND GOING CONCERN**

CordovaCann Corp. (formerly LiveReel Media Corporation) (the “Company” or “CordovaCann”) is a Canadian-domiciled company focused on building a leading, diversified cannabis products business across multiple jurisdictions including Canada and the United States. CordovaCann primarily provides services and investment capital to the processing and production vertical markets of the cannabis industry. On January 3, 2018, the Company changed its name from LiveReel Media Corporation to CordovaCann Corp. The Company’s registered address is 333 Bay Street, Suite 1700, Toronto, Ontario, M5H 2R2.

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as promulgated by the International Accounting Standards Board (“IASB”) on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. There is substantial doubt about the Company’s ability to continue as a going concern as the Company incurred a comprehensive loss of \$4,865,249 (June 30, 2017 – \$88,405; June 30, 2016 - \$73,712) during the year ended June 30, 2018 and has a total accumulated deficit of \$13,734,265 (June 30, 2017 – \$8,868,332) as at June 30, 2018. The Company’s ability to continue as a going concern is dependent upon its ability to access sufficient capital until it has profitable operations and raises a material concern. To this point, all operational activities and overhead costs have been funded through equity issuances, debt issuances and related party advances.

The Company believes that continued funding from equity and debt issuances will provide sufficient cash flow for it to continue as a going concern in its present form, however, there can be no assurances that the Company will achieve this. Accordingly, these consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

The Company’s common shares trade on the OTCQB in the United States under the symbol “LVRLF”. On August 8, 2018, the Company’s common shares commenced trading on the Canadian Securities Exchange under the symbol “CDVA” to secure future financing in Canadian Dollars.

## **2. BASIS OF PREPARATION**

### **(a) Statement of Compliance**

These consolidated financial statements of the Company and its subsidiaries were prepared using accounting policies consistent with IFRS as issued by the IASB and interpretations of the IFRS Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized for issue by the Board of Directors on October 29, 2018.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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## 2. BASIS OF PREPARATION (continued)

### (b) Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis, except where otherwise disclosed. Historical cost is based on the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (c) Functional and Presentation Currency

The consolidated financial statements are presented in Canadian Dollars, which is the Company's presentation currency. The functional currencies of the group, as determined by management, are as follows:

	<b>Currency</b>
CordovaCann Corp.	Canadian
CordovaCann Holdings Canada, Inc.	Canadian
CordovaCann Holdings, Inc.	United States
Cordova CO Holdings, LLC	United States
Cordova OR Holdings, LLC	United States
Cordova OR Operations, LLC (27.5%)	United States

In translating the financial statements of the Company's foreign subsidiaries from their functional currencies into the Company's reporting currency of Canadian Dollars, balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during the reporting period. Adjustments resulting from the translation, if any, are included in accumulated other comprehensive income (loss) in shareholders' equity.

### (d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The key assumptions concerning the future, and other key sources of estimation uncertainty as of the date of the statement of financial position that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next fiscal year arise in connection with the valuation of financial instruments, fair value of share purchase warrants, share-based payments and deferred tax assets.

# **CordovaCann Corp.**

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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## **2. BASIS OF PREPARATION (continued)**

### **(e) Basis of Consolidation**

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: CordovaCann Holdings Canada, Inc., and CordovaCann Holdings, Inc. and its wholly owned subsidiaries: Cordova CO Holdings, LLC and Cordova OR Holdings, LLC.

### **(f) Joint Venture**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets related to the arrangement. The Company accounts for its interests in joint ventures using the equity method of accounting. The Company initially records its interests in joint ventures at cost. Subsequent to initial recognition, the carrying value of the Company's interest in the joint venture is adjusted for the Company's share of comprehensive income and distributions of the investee.

Refer to Note 5 for additional information on the Company's joint venture in Cordova OR Operations, LLC.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

### **Cash and cash equivalents**

Cash consists of bank balances and cash held in trust. Cash equivalents consist of short-term deposits with original maturities of three months or less. As at June 30, 2018 and June 30, 2017, there were no cash equivalents.

### **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating policy decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

The Company records income as a result of an operating lease. The Company presents its assets subject to the operating leases in its statement of financial position. The Company recognizes income from its operating leases on a straight-line basis over the lease terms, unless another systematic basis better represents the time pattern in which the economic benefits in the leased asset diminish.

### Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the expected service periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock options reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that will eventually vest.

### Equipment

Equipment is stated at cost, less accumulated depreciation and any accumulated impairment losses. The gain or loss arising on the disposal or retirement of an item of equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of operations. Expenditures to replace a component of an item of equipment that is accounted for separately are capitalized and the existing carrying amount of the component written off. Other subsequent expenditures are capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repair and maintenance, are recognized in the statement of operations as incurred.

Depreciation is charged to the income statement based on the cost, less estimated residual value, of the asset on a straight-line basis over the estimated useful life. Depreciation commences when the assets are available for use. The estimated useful lives are as follows:

	<u>Method:</u>	<u>Rate:</u>
Equipment	Straight-line	5 years

### Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the dilution that would occur if outstanding stock options and share purchase warrants were exercised or converted into common shares using the treasury stock method and are calculated by dividing net loss applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The inclusion of the Company's stock options and share purchase warrants in the computation of diluted loss per share would have an anti-dilutive effect on loss per share and are therefore excluded from the computation. Consequently, there is no difference between basic loss per share and diluted loss per share. The outstanding number of and type of securities that could potentially dilute basic net loss per share in the future but that were not included in the computation of diluted net loss per share are as follows:

	June 30, 2018	June 30, 2017	June 30, 2016
Stock options	1,750,000	-	-
Warrants	6,650,000	-	-

### Financial Instruments

#### *Financial assets*

The Company initially recognizes financial assets at fair value on the date that they are originated. All financial assets (including assets designated at fair value through profit or loss, "FVTPL") are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies its financial assets as financial assets at FVTPL, available for sale ("AFS") financial assets or loans and receivables. A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables or financial assets at FVTPL. AFS financial assets are stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income ("OCI"). When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in OCI is reclassified to profit or loss. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018, 2017 and 2016

(Expressed in Canadian Dollars)

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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial Instruments (continued)

#### *Financial liabilities*

The Company initially recognizes financial liabilities at fair value on the date that they are originated. All financial liabilities (including liabilities designated at FVTPL) are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either financial liabilities at FVTPL or other liabilities. Subsequent to initial recognition other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

#### *Classification of financial instruments*

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics, and management intent as outlined below:

	<u>Classification:</u>
Receivables	Loan and receivable
Promissory note	Loan and receivable
Accounts payable and accrued liabilities	Other liabilities

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment. Change in assumptions could significantly affect the estimates.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include: significant financial difficulty of the issuer or the counterparty; or default or delinquency in interest or principal payments; or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying value is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Income taxes**

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized in equity, in which case it is recognized in equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax liabilities or assets are recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **Equity**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

### **Impairment of long-lived assets**

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

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## **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Investment in joint venture**

Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control. Investees in which the Company has joint control and rights to net assets thereof, are defined as joint ventures. The Company's interest in Cordova OR Operations, LLC. is classified as a joint venture.

Investments in joint ventures are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance common shares and inclusive of transaction. The carrying amount of goodwill arising from the acquisition of joint ventures is included in the carrying amount of the investments in joint ventures. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in the income and expenses of the investee, less any impairment in the value of individual investments, less any dividends paid. Where the Company transacts with an investee, unrealized profits and losses are eliminated to the extent of the Company's interest in that investee.

The consolidated financial statements include the Company's share of the income and expenses and equity movement of equity accounted investees. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. Where the investee's reporting period differs from the Company's, the investee prepares financial information as of the same period end as the Company, unless it is impracticable to do so. Otherwise, the Company will adjust for its share of income and expenses and equity movement based on the investee's most recently completed financial statements, adjusted for the effects of significant transactions. The Company does not recognize losses exceeding the carrying value of its interest in the joint venture.

### **New Standards Not Yet Adopted**

#### **IFRS 9 – Financial Instruments**

In July 2014, the IASB issued the final publication of the IFRS 9 Financial Instruments ("IFRS 9") standard. The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance. The Company assessed the impact of adopting IFRS 9 retrospectively and determined that the impact was not material. Commencing July 1, 2018, the Company will adopt IFRS 9 on a cumulative effective basis, with no restatement of the comparative period.

#### **IFRS 15 – Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers ("IFRS 15"). The new standard is effective for annual periods beginning on or after January 1, 2018. IFRS 15 introduces a single model for recognizing revenue from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an



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## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### IFRS 15 – Revenue from Contracts with Customers (continued)

amount that reflects the consideration expected to be received in exchange for transferring those goods or services. The Company assessed the impact of adopting IFRS 15 retrospectively and determined that the impact was not material. Commencing July 1, 2018, the Company will adopt IFRS 15 on a cumulative effective basis, with no restatement of the comparative period.

### IFRS 16 - Leases

In January 2016, the IASB issued a new standard, IFRS 16 – Leases. The new standard requires lessees to recognize most leases on the balance sheet using a single model, thereby eliminating the distinction between operating and finance leases. Lessor accounting, however, remains similar to current accounting practice, and the distinction between operating and finance leases is retained. The standard is effective for annual periods beginning on or after January 1, 2019 and will supersede IAS 17 Leases. Early application is permitted if IFRS 15 – Revenue from Contracts with Customers has also been applied. The Company does not intend to adopt the new standard prior to its effective date and does not expect the new standard to have a significant impact on the consolidated financial statements.

### IFRS 7 – Financial Instruments: Disclosure

IFRS 7 Financial Instruments: Disclosure, was amended to require additional disclosures on transition from IAS 39 to IFRS 9. IFRS 7 is effective on adoption of IFRS 9, which is effective for annual periods commencing on or after January 1, 2018. The Company intends to adopt the amendments to IFRS 7 on July 1, 2018 and does not expect the implementation will result in a significant effect to the financial statements.

## 4. EQUIPMENT

Equipment consists of the following:

	June 30, 2018			June 30, 2017
	Cost	Accumulated Depreciation	Net	Net
Equipment	\$ 151,188	\$ 12,770	\$ 138,418	\$ -

During the year ended June 30, 2018, the Company expensed \$12,770 in depreciation (June 30, 2017 – \$nil; June 30, 2016 – \$nil) which has been recorded as cost of sales in relation to the below lease agreement.

The Company entered into an operating lease on February 1, 2018 with an unrelated party (the “Lessee”), under which the Lessee agreed to lease the above equipment for an initial period of twelve months. The Lessee shall make monthly payments of USD \$5,040 due on or before the first day of each respective month. During the year ended June 30, 2018, the Company had rental income in the amount of \$24,159 outstanding as a result of this lease. The Company has not recorded revenue for the rental income pending a determination by the Company that collectability is reasonably assured. The Company expects to collect the outstanding balance related to the lease agreement and will recognize revenue upon receipt.

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## 4. EQUIPMENT (continued)

The lease will automatically extend for additional twelve month periods unless either party provides notice of its intent to terminate the lease. At June 30, 2018, it is estimated that future minimum lease payments of USD \$35,280 are to be charged within the next year.

## 5. INVESTMENT AND ADVANCES IN JOINT VENTURE

On April 4, 2018, the Company entered into an agreement to acquire 27.5% of Cordova OR Operations, LLC (“OR Operations”) in a step acquisition for the acquisition of land and buildings. Under the terms of the agreement, the Company acquired a 27.5% membership interest in OR Operations for USD \$400,000 and agreed to pay an additional USD \$1,050,000, on or before April 3, 2019 (the “Mandatory Payment Date”), to acquire the remaining 72.5% membership interest in OR Operations; failure to pay the remaining purchase price would result in the Company forfeiting all right, title and interest in OR Operations on such date. Prior to the Mandatory Payment Date, the decisions over relevant activities of OR Operations will be jointly determined. The Company has concluded that it has joint control over OR Operations as at June 30, 2018. Accordingly, until the 72.5% membership is redeemed, the investment in OR Operations shall be classified as a joint venture and has been accounted for using the equity method in accordance with IAS 28. The concepts underlying the procedures used in accounting for the acquisition of a subsidiary will also be adopted for the acquisition of additional interests in OR Operations. The carrying amount of the investment will be adjusted to recognize changes in the Company’s net share of assets of OR Operations since the acquisition date. Given the limited time between the acquisition and the year-end, the accounting for the step acquisition of OR Operations was only provisionally determined as at June 30, 2018. Consistent with IFRS, the measurement period for the step acquisition of OR Operations shall not exceed one year from the acquisition date.

Summarised financial information for investment in OR Operations is set out below:

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Participating share	<b>27.50%</b>
Balance at June 30, 2017	\$ -
Additions	<b>526,720</b>
Share of net income (loss)	<b>7,591</b>
<b>Balance at June 30, 2018</b>	<b>\$ 534,311</b>

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### 5. INVESTMENT AND ADVANCES IN JOINT VENTURE (continued)

	<b>June 30, 2018</b>
	<b>\$</b>
Current assets	320,330
Non-current assets	2,241,939
Current liabilities	(624,493)
Non-current liabilities	-
Net and comprehensive loss	27,603

During the year ended June 30, 2018, the Company also advanced a total of \$610,705 to OR Operations (June 30, 2017 – \$nil; June 30, 2016 – \$nil). The advances to OR Operations are unsecured, bearing interest at 8% per annum and due twelve months from the date of issuance.

### 6. DUE TO RELATED PARTIES

Amounts due to related parties consist of the following:

	<b>June 30, 2018</b>	June 30, 2017
Amounts owing to officers and a director of the company	\$ -	\$ 12,796
Amounts owing to entities related by virtue of common officers	-	38,486
Interest accrued on related party notes payable	-	118,888
	<u>\$ -</u>	<u>\$ 170,170</u>

On September 22, 2017, amounts due to related parties in the amount of \$53,089 were settled in a transaction with a shareholder (see Note 7) while the remaining \$117,081 was repaid in cash.

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## 7. RELATED PARTY NOTES PAYABLE

On September 22, 2017, \$330,966 of notes payable and \$53,089 of amounts due to related parties (see Note 6) were settled by a shareholder of the Company resulting in a total amount due to the shareholder (“Shareholder Loan”) of \$384,055. This loan was subsequently settled with the issuance of 7,681,110 common shares of the Company at the price of \$0.05 per share. No gain or loss was recorded on the issuance consistent with the provisions of IFRIC 19 (see Note 8).

The related party notes payable was unsecured, accrued interest at 12% and was due on demand. During the year ended June 30, 2018, the Company accrued interest of \$14,877 (June 30, 2017 – \$55,580; June 30, 2016 – \$49,322) on the Notes Payable.

During the year ended June 30, 2018, the Company fully repaid the remaining balance owing on the Notes Payable with cash.

	<b>June 30, 2018</b>	June 30, 2017
<b>Balance, beginning of period</b>	\$ <u>374,647</u>	\$ 374,647
Settlement with shareholder	(330,966)	-
Repayment with cash	(43,681)	-
<b>Balance, end of period</b>	\$ <u><u>-</u></u>	\$ <u><u>374,647</u></u>

## 8. SHARE CAPITAL

Authorized: Unlimited number of common shares

During the year ended June 30, 2018, the Company had the following common share transactions:

- a. On October 19, 2017, the Shareholder Loan in the amount of \$384,055 (see Note 7) was settled with the issuance of 7,681,110 common shares of the Company at a price of \$0.05 per share;
- b. On December 14, 2017, the Company issued 5,532,500 common shares valued at \$0.10 per share as part of a private placement for total gross proceeds of \$553,250; of which \$533,250 was received in cash and \$20,000 was received in services provided by a consultant;
- c. On March 12, 2018, the Company issued 890,074 common shares valued at \$1.08 per share as part of a private placement for total gross proceeds of \$959,251; all of which was received in cash; and
- d. On June 12, 2018 and June 15, 2018, the Company issued 2,390,800 and 20,000 common shares, respectively, valued at \$1.95 per share as part of a private placement for total gross proceeds of \$4,703,025; of which \$4,400,163 was received in cash and \$302,862 was received in services provided by consultants.

During the years ended June 30, 2017 and June 30, 2016, the Company had no common share transactions.

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## 9. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established by and agreed to by the related parties. Related party transactions for the years ended June 30, 2018, 2017 and 2016 and balances as at those dates, not disclosed elsewhere in these consolidated financial statements are:

- a) During the year ended June 30, 2018, the Company received \$nil (June 30, 2017 – \$2,420; June 30, 2016 – \$20,302) in advances from related parties, for working capital purposes;
- b) During the year ended June 30, 2018, the Company purchased equipment valued at \$44,439 (June 30, 2017 – \$nil; June 30, 2016 – \$nil) from a corporation related by virtue of a common officer and a director;
- c) During the year ended June 30, 2018, the Company expensed \$508,399 (June 30, 2017 – \$nil; June 30, 2016 – \$nil) in fees payable to Officers and Directors of the Company and in fees payable to a corporation related by virtue of a common officer and director. As at June 30, 2018, the Company has a prepaid expense amount paid to the related corporation in the amount of \$74,147 and fees payable to Officers and Directors of the Company of \$59,518; and
- d) During the year ended June 30, 2018, the Company expensed \$2,286,120 (June 30, 2017 – \$nil; June 30, 2016 – \$nil) in stock-based compensation related to Officers and Directors of the Company.

## 10. WARRANTS

	<u>Warrants Outstanding</u>		<u>Weighted Average Exercise Price</u>	<u>Weighted Average Life Remaining (yrs)</u>
<b>Beginning of year, July 1, 2017</b>	-	\$	-	-
Issued	<b>6,650,000</b>		<b>0.54</b>	<b>1.37</b>
Expired	-		-	-
<b>End of year, June 30, 2018</b>	<b>6,650,000</b>	<b>\$</b>	<b>0.54</b>	<b>1.37</b>

- a) On November 1, 2017 and in connection to a consulting agreement with a director and officer of the Company, the Company issued warrants for the purchase of 3,000,000 common shares of the Company exercisable until October 31, 2019 at an exercise price of \$0.10 per share. On issuance, warrants for the purchase of 1,000,000 common shares vested immediately and the remaining 2,000,000 vested during the year ended June 30, 2018.

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## 10. WARRANTS (continued)

The fair value of these issued warrants of \$261,401 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$0.10
Risk-free interest rate	1.41 %
Expected life	2 years
Estimated volatility in the market price of the common shares	214 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company fully expensed \$261,401 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

- b) On November 1, 2017 and in connection to a consulting agreement, the Company issued warrants for the purchase of 750,000 common shares of the Company exercisable until April 30, 2019 at an exercise price of \$0.15 per share. On issuance, warrants for the purchase of 250,000 common shares vested immediately and the remaining 500,000 vested during the year ended June 30, 2018.

The fair value of these issued warrants of \$44,087 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$0.10
Risk-free interest rate	1.41 %
Expected life	1.5 years
Estimated volatility in the market price of the common shares	155 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company fully expensed \$44,087 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

- c) On November 1, 2017 and in connection to a consulting agreement, the Company issued warrants for the purchase of 250,000 common shares of the Company exercisable until April 30, 2019 at an exercise price of \$0.10 per share, such warrants vesting upon the consultant meeting certain deliverables as set forth in the consulting agreement. As at June 30, 2018, the deliverables were not met.

The fair value of these issued warrants of \$16,499 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$0.10
Risk-free interest rate	1.41 %
Expected life	1.5 years
Estimated volatility in the market price of the common shares	155 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company expensed \$4,125 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

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## 10. WARRANTS (continued)

- d) On March 9, 2018 and in connection to a consulting agreement with a director and officer of the Company, the Company issued warrants for the purchase of 1,500,000 common shares of the Company exercisable until March 8, 2020 at an exercise price of \$1.15 per share, such warrants vesting immediately upon issuance.

The fair value of these issued warrants of \$1,336,934 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.14
Risk-free interest rate	1.83 %
Expected life	2 years
Estimated volatility in the market price of the common shares	173 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company fully expensed \$1,336,934 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

- e) On March 9, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 750,000 common shares of the Company exercisable until March 8, 2020 at an exercise price of \$1.15 per share, such warrants vesting upon the consultant meeting certain deliverables as set forth in the consulting agreement. As at June 30, 2018, the deliverables were not met.

The fair value of these issued warrants of \$668,467 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.14
Risk-free interest rate	1.83 %
Expected life	2 years
Estimated volatility in the market price of the common shares	173 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company expensed \$501,350 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

- f) On March 15, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 400,000 common shares of the Company exercisable until September 14, 2019 at an exercise price of \$1.45 per share, such warrants vesting upon the consultant meeting certain deliverables as set forth in the consulting agreement. As at June 30, 2018, the deliverables were not met.

The fair value of these issued warrants of \$324,775 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

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## 10. WARRANTS (continued)

Stock price	\$1.42
Risk-free interest rate	1.75 %
Expected life	1.5 years
Estimated volatility in the market price of the common shares	129 %
Dividend yield	Nil

For the year ended June 30, 2018, the Company expensed \$121,791 of the fair value of the warrants as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

## 11. OPTIONS

On November 22, 2017, the Company's shareholders approved and the Company adopted a new rolling stock option plan (the "Option Plan"), under which the Board of Directors may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company. Pursuant to the Option Plan, the Company may issue options for such period and exercise price as may be determined by the Board of Directors, and in any case not exceeding ten (10) years from the date of grant with the total options issued under the Option Plan not exceeding ten percent (10%) of the common shares of the Company, outstanding at the time of the granting of such options. The minimum exercise price of an option granted under the Option plan must not be less than the market value of the common shares on the date such option is granted.

Outstanding options as at June 30, 2018 are as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)
Executive Officers	900,000	\$0.78	2.62
Directors	100,000	\$0.40	2.55
Consultants	750,000	\$0.70	2.60
	<u>1,750,000</u>		

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Fair Value Expense
January 16, 2018 <sup>(i)</sup>	January 15, 2021	1,000,000	1,000,000	\$0.40	\$377,024
March 9, 2018 <sup>(ii)</sup>	March 8, 2021	750,000	750,000	\$1.15	\$800,703

- (i) The options fully vested on issuance and the fair value of \$377,024 was determined using the Black-Scholes Option Pricing Model with the following assumptions:



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## 11. OPTIONS (continued)

Stock price	\$0.40
Risk-free interest rate	1.78 %
Expected life	3 years
Estimated volatility in the market price of the common shares	218 %
Dividend yield	Nil

- (ii) The options fully vested on issuance and the fair value of \$800,703 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.14
Risk-free interest rate	1.83 %
Expected life	3 years
Estimated volatility in the market price of the common shares	213 %
Dividend yield	Nil

During the year ended June 30, 2018, the Company fully expensed \$1,177,727 of the fair value of the options as a result of the issuances which have been recorded as share based compensation (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

## 12. COMMITMENTS

### (a) Exclusivity Fee

On March 7, 2018, the Company entered into a memorandum of understanding (the “MOU”) with a third party which granted the Company an exclusivity option on a transaction to acquire a majority stake in real estate and intellectual property assets owned by the third party. Under the terms of the MOU, the Company agreed to pay the third party up to USD \$100,000 for such exclusivity until termination by either party. During the year ended June 30, 2018, the Company paid \$42,550 to the third party and expensed \$42,550 as an exclusivity fee (June 30, 2017 – \$nil; June 30, 2016 – \$nil).

### (b) Employment Agreements

The Company is party to certain employment agreements with key executives of the Company that contain clauses requiring additional payments of up to two times the annual entitlements under these agreements upon occurrence of certain events, such as a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

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## 13. INCOME TAXES

### *Canadian*

#### **Current Income Taxes**

The major factors that cause variations from the Company's combined federal and provincial statutory Canadian income tax rates were the following:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Loss from Canadian operations	\$ (4,860,659)	\$ (88,405)	\$ (73,712)
Combined Canadian statutory income tax rates	<u>26.50%</u>	<u>26.50%</u>	<u>26.50%</u>
Income tax recovery at statutory income tax rates	\$ (1,288,075)	\$ (23,427)	\$ (19,534)
Increase (decrease) in taxes resulting from:			
Stock-based compensation expense	913,565	-	-
Other	4,790	-	-
Unrecognized benefit of non-capital losses	369,720	23,427	19,534
Provision for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

#### **Deferred Income Taxes**

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Amounts related to tax loss carry forwards	\$ 4,868,000	\$ 3,474,000

A deferred tax asset has not been recognized in respect of the above because it is not probable that future taxable profits will be available against which the temporary difference can be utilized.

#### **Non-capital Losses, Canadian**

As at June 30, 2018, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$4,868,000 which may be applied against future Canadian taxable income and expire as detailed below. No deferred taxes have been recognized in these consolidated financial statements in respect of the following as the probability that future taxable profit will allow the deferred tax asset to be recognized cannot be predicted at this time. The Company is in the process of filing its corporate tax returns for the years ended June 30, 2015 to June 30, 2018. The net operating losses for these years will not be available to reduce future taxable income until the returns are filed.

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## 13. INCOME TAXES (continued)

2027	536,000
2028	868,000
2029	911,000
2030	260,000
2031	251,000
2032	153,000
2033	25,000
2034	131,000
2035	177,000
2036	74,000
2037	88,000
2038	1,394,000
	<u>\$ 4,868,000</u>

### *United States*

#### **Current Income Taxes**

The major factors that cause variations from the Company's combined United States federal and state level income tax rates were the following:

	<b>June 30, 2018</b>
	\$
Loss from US operations	<b>(5,274)</b>
Combined federal and state level taxes	<b>26.214%</b>
Expected income tax recovery	<b>(1,383)</b>
Temporary difference, Equipment	<b>(36,285)</b>
Unrecognized benefit of non-capital losses	<b>37,668</b>
Provision for income taxes (recovery)	-

#### **Deferred Income Taxes**

Deferred tax assets have not been recognized in respect of the following United States deductible temporary differences:

	<b>June 30,</b>
	<b>2018</b>
Amounts related to temporary difference, equipment	<u>\$ 144,000</u>

A deferred tax asset has not been recognized in respect of the above because it is not probable that future taxable profits will be available against which the temporary difference can be utilized.

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## 13. INCOME TAXES (continued)

### Non-capital Losses, United States

As at June 30, 2018, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of carry-forward of approximately \$144,000 which may be applied against future United States taxable income and expire as detailed below. No deferred taxes have been recognized in these consolidated financial statements in respect of the following as the probability that future taxable profit will allow the deferred tax asset to be recognized cannot be predicted at this time.

2038	\$144,000
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## 14. PROMISSORY NOTE

On June 7, 2018, the Company entered into a revolving promissory note with a customer (the “Promissory Note”). Under the terms of the Promissory Note, the customer could draw up to the principal sum of USD \$50,000 at the sole discretion of the Company. The Promissory Note is unsecured, bearing interest at 8% per annum and due twelve months from the date of issuance. As at June 30, 2018, USD \$12,000 was outstanding under the Promissory Note.

## 15. FINANCIAL INSTRUMENTS AND RISK FACTORS

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements is as follows:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3: inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The fair values of the Company’s financial instruments consisting of accounts payable and other accrued liabilities, due to related parties and related party notes payable, approximate their carrying value due to the relatively short term maturities of these instruments.

### Risk Management Policies

The Company, through its financial assets and liabilities, is exposed to various risks. The Company has established policies and procedures to manage these risks, with the objective of minimizing any adverse effect that changes in these variables could have on the consolidated financial statements. The following analysis provides a measurement of risks as at June 30, 2018:

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## **15. FINANCIAL INSTRUMENTS AND RISK FACTORS (continued)**

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is not exposed to any significant credit risk.

### **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due within one year. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. At June 30, 2018, there is substantial doubt about the Company's ability to continue as a going concern primarily due to its history of losses. Liquidity risk continues to be a key concern in the development of future operations.

### **Market Risk**

#### **(i) Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates on all of the Company's existing debt are fixed, and therefore it is not currently subject to any significant cash flow interest rate risk.

#### **(ii) Foreign Currency Risk**

The Company is exposed to foreign currency risk from fluctuations in foreign exchange rates and the degree of volatility in these rates due to the timing of their accounts payable balances. The risk is mitigated by timely payment of creditors and monitoring of foreign exchange fluctuations by management. As at June 30, 2018, the Company did not use derivative instruments to hedge its exposure to foreign currency risk.

#### **(iii) Price Risk**

The Company's operations do not involve the direct input or output of any commodities and therefore it is not subject to any significant commodity price risk. In addition, the Company does not have any equity investment in other listed public companies, and therefore it is not subject to any significant stock market price risk.

## **16. CAPITAL MANAGEMENT**

The Company includes equity comprised of issued share capital, contributed surplus, deficit in the definition of capital and accumulated other comprehensive loss. As at June 30, 2018, the Company's shareholders' equity was \$4,555,271 (June 30, 2017 – shareholders' deficiency of \$626,476). The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's ability to continue as a going concern; and

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(ii) to raise sufficient capital to meet its business objectives.

## **16. CAPITAL MANAGEMENT (continued)**

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's long-term and short-term capital requirements. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or debt.

## **17. SUBSEQUENT EVENTS**

On September 18, 2018, the Company advanced \$500,000 for the purchase of 500,000 convertible preferred shares of NWN Inc. ("NWN") at a price of one \$1.00 per preferred share (each, a "Preferred Share"). Each Preferred Share is convertible into one share of NWN, subject to appropriate adjustments for any stock splits, consolidations or other recapitalizations. The Company also agreed to purchase an additional 3,500,000 Preferred Shares at a price of \$1.00 per share on or before December 31, 2018 under the same terms and received a right of first refusal to participate in any future equity offerings of NWN. NWN is considered to be a related party by virtue of a common officer and director.

On October 1, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 250,000 common shares of the Company exercisable until September 30, 2020 at an exercise price of \$1.50 per share. Of these issued warrants, 100,000 vested immediately while the remaining 150,000 warrants shall vest in 6 equal tranches of 25,000 warrants every three months from the date of issuance.

On October 15, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 250,000 common shares of the Company exercisable until October 14, 2020 at an exercise price of \$2.00 per share. The warrants shall vest in 4 equal tranches of 62,500 warrants every three months from the date of issuance.

## **18. COMPARATIVE AMOUNTS**

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current year. Such reclassifications did not have an impact on previously reported net loss.