

# **CordovaCann Corp.**

(formerly LiveReel Media Corporation)

**Unaudited Condensed Interim Consolidated Financial Statements**  
**For the Three and Six Months Ended December 31, 2019 and 2018**  
(Expressed in Canadian Dollars)

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## **CordovaCann Corp.** (formerly LiveReel Media Corporation)

### Notice to Reader Issued by Management

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice to this effect.

The accompanying unaudited condensed interim consolidated financial statements have been prepared and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of the unaudited condensed interim consolidated financial statements.

March 2, 2020

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

<b>As at</b>	<b>December 31, 2019 (Unaudited) \$</b>	<b>June 30, 2019 (Audited) \$</b>
<b>ASSETS</b>		
Current		
Cash and cash equivalents	17,447	71,849
Accounts receivable	22,859	-
Prepaid expenses and deposits (Note 12)	396,134	427,894
	<b>436,440</b>	499,743
Investment in related party (Note 4)	500,000	500,000
Property and equipment (Note 5)	3,617,812	3,645,389
<b>Total assets</b>	<b>4,554,252</b>	4,645,132
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	1,976,998	1,371,386
Mortgage payable (Note 6)	687,167	657,633
Debenture unit deposits (Note 8)	201,171	594,889
Promissory notes payable (Note 7)	1,580,940	1,112,194
	<b>4,446,276</b>	3,736,102
Convertible debentures (Note 8)	1,246,475	546,460
<b>Total liabilities</b>	<b>5,692,751</b>	4,282,562
<b>SHAREHOLDERS' EQUITY (DEFICIENCY)</b>		
Share capital (Note 9)	14,636,828	14,636,828
Contributed surplus	5,597,116	5,226,156
Equity portion of convertible debentures	146,482	62,498
Accumulated deficit	(21,536,995)	(19,570,801)
Accumulated other comprehensive income	18,070	7,889
<b>Total shareholders' equity (deficiency)</b>	<b>(1,138,499)</b>	362,570
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>4,554,252</b>	4,645,132

Nature of operations and going concern (Note 1)

Commitments (Note 12)

Related party transactions (Note 13)

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 unaudited condensed interim consolidated financial statements.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Unaudited Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

	<b>Three Months Ended December 31, 2019</b>	Three Months Ended December 31, 2018	<b>Six Months Ended December 31, 2019</b>	Six Months Ended December 31, 2018
	\$	\$	\$	\$
<b>Revenue (Note 5)</b>	-	-	-	-
<b>Cost of sales (Note 5)</b>	-	7,832	-	15,263
	-	(7,832)	-	(15,263)
<b>Expenses</b>				
Consulting fees	<b>332,715</b>	750,655	<b>750,531</b>	1,446,244
Share based compensation (Note 11)	<b>107,279</b>	586,410	<b>337,144</b>	586,410
Professional fees	<b>83,224</b>	96,962	<b>124,645</b>	141,285
Shareholders information service	<b>14,327</b>	34,754	<b>60,463</b>	77,285
Office and general	<b>35,392</b>	136,853	<b>92,486</b>	218,745
Exclusivity fee (Note 12(a))	-	-	-	15,682
	<b>572,937</b>	1,605,634	<b>1,365,269</b>	2,485,651
<b>Loss before other income</b>	<b>(572,937)</b>	(1,613,466)	<b>(1,365,269)</b>	(2,500,914)
Interest expense (Note 6, 7, 8)	<b>99,430</b>	-	<b>184,223</b>	-
Accretion expense (Note 7, 8)	<b>30,345</b>	-	<b>53,650</b>	-
Foreign exchange loss (gain)	<b>3,589</b>	(135,565)	<b>15,668</b>	(62,134)
Loss on deposit (Note 12(e))	<b>396,000</b>	-	<b>396,000</b>	-
Other income	<b>(36,432)</b>	-	<b>(48,616)</b>	-
<b>Net loss</b>	<b>(1,065,869)</b>	(1,477,901)	<b>(1,966,194)</b>	(2,438,780)
<b>Loss per share - basic and diluted</b>	<b>(0.03)</b>	(0.04)	<b>(0.05)</b>	(0.06)
<b>Weighted average number of outstanding common shares - basic and diluted</b>	<b>40,786,228</b>	40,036,228	<b>40,786,228</b>	40,036,228
<b>Net loss</b>	<b>(1,065,869)</b>	(1,477,901)	<b>(1,966,194)</b>	(2,438,780)
Foreign exchange translation adjustment	<b>24,313</b>	(2,763)	<b>10,181</b>	(2,878)
<b>Total comprehensive loss</b>	<b>(1,041,556)</b>	(1,480,664)	<b>(1,956,013)</b>	(2,441,658)

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

## CordovaCann Corp.

(formerly LiveReel Media Corporation)

Unaudited Condensed Interim Consolidated Statements of Changes in Equity (Deficiency)

(Expressed in Canadian Dollars)

	Number of Common Shares #	Share Capital \$	Contributed Surplus \$	Equity Portion of Convertible Debentures \$	Accumulated Deficit \$	Accumulated Other Comprehensive Income \$	Shareholders' Equity (Deficiency) \$
<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>
Issuance of warrants	-	-	586,410	-	-	-	586,410
Foreign currency translation gain (loss)	-	-	-	-	-	(2,878)	(2,878)
Net loss for the period	-	-	-	-	(2,438,780)	-	(2,438,780)
<b>Balance, December 31, 2018</b>	<b>40,036,228</b>	<b>14,480,241</b>	<b>4,395,021</b>	-	<b>(16,173,045)</b>	<b>(2,194)</b>	<b>2,700,023</b>
<b>Balance, June 30, 2019</b>	<b>40,786,228</b>	<b>14,636,828</b>	<b>5,226,156</b>	<b>62,498</b>	<b>(19,570,801)</b>	<b>7,889</b>	<b>362,570</b>
Issuance of warrants ( <i>Note 11</i> )	-	-	337,144	-	-	-	337,144
Equity portion of convertible debentures ( <i>Note 8</i> )	-	-	33,816	74,989	-	-	108,805
Warrant portion of promissory note payable ( <i>Note 7</i> )	-	-	-	8,995	-	-	8,995
Foreign currency translation gain (loss)	-	-	-	-	-	10,181	10,181
Net loss for the period	-	-	-	-	(1,966,194)	-	(1,966,194)
<b>Balance, December 31, 2019</b>	<b>40,786,228</b>	<b>14,636,828</b>	<b>5,597,116</b>	<b>146,482</b>	<b>(21,536,995)</b>	<b>18,070</b>	<b>(1,138,499)</b>

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

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

	Six Months Ended December 31, 2019	Six Months Ended December 31, 2018
	\$	\$
<b>Operating activities</b>		
Net loss for the period	<b>(1,966,194)</b>	(2,438,780)
Adjusted for non-cash items:		
Share based compensation	<b>337,144</b>	586,410
Interest expense	<b>177,443</b>	-
Accretion expense	<b>53,650</b>	-
Share of profit of a joint venture	-	(11,752)
Depreciation	-	15,263
Interest income	-	(42,199)
Foreign exchange loss (gain)	<b>(16,121)</b>	(24,061)
<b>Changes in non-cash working capital items:</b>		
Prepaid expenses and deposits	<b>421,400</b>	90,650
Accounts receivable	<b>22,859</b>	-
Accounts payable and accrued liabilities	<b>605,612</b>	353,579
Cash used in operating activities	<b>(364,207)</b>	(1,470,890)
<b>Investing activities</b>		
Advances to OR Operations	-	(1,073,685)
Investment in related party	-	(500,000)
Promissory note receivable	-	(71,916)
Cash used in investing activities	-	(1,645,601)
<b>Financing activities</b>		
Issuance of convertible debentures	<b>98,453</b>	-
Proceeds from debenture unit deposits	<b>201,171</b>	50,000
Proceeds from financing activities	<b>299,624</b>	50,000
Effect of exchange rate changes on cash	<b>10,181</b>	(2,878)
<b>Net decrease in cash and cash equivalents</b>	<b>(54,402)</b>	(3,069,369)
<b>Cash and cash equivalents, beginning of period</b>	<b>71,849</b>	3,250,697
<b>Cash and cash equivalents, end of period</b>	<b>17,447</b>	181,328
<b>Supplementary cash flow information</b>		
Interest paid	<b>6,780</b>	-
Taxes paid	-	-

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

# **CordovaCann Corp.**

(formerly LiveReel Media Corporation)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

(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 principal address is 217 Queen Street West, Suite 401, Toronto, Ontario, M5V 0R2.

The Company’s common shares currently trade on the Canadian Securities Exchange under the symbol “CDVA” and in the United States on the OTCQB under the symbol “LVRLF”.

These condensed interim 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 \$1,956,013 (December 31, 2018 – \$2,441,658) during the six months ended December 31, 2019 and has a total accumulated deficit of \$21,536,995 (June 30, 2019 – \$19,570,801) as at December 31, 2019. 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 condensed interim 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.

## **2. BASIS OF PREPARATION**

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

The Company’s condensed interim consolidated financial statements have been prepared in conformity with IAS 34 – *Interim Financial Reporting* and do not include all the information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financials for the year ended June 30, 2019. These condensed interim 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 condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 2, 2020.

# CordovaCann Corp.

(formerly LiveReel Media Corporation)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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## 2. BASIS OF PREPARATION (continued)

### (b) Basis of Presentation

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (c) Functional and Presentation Currency

These condensed interim 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:

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	<b>Currency</b>
CordovaCann Corp.	Canadian
CordovaCann Holdings Canada, Inc.	Canadian
Cordova Investments Canada, Inc.	Canadian
CordovaCann Holdings, Inc.	United States
Cordova CO Holdings, LLC	United States
Cordova OR Holdings, LLC	United States
CDVA Enterprises, LLC	United States
Cordova CA Holdings, LLC	United States
Cordova OR Operations, LLC	United States
Cannabilt Farms, LLC	United States
Cannabilt OR Retail, LLC	United States
Cannabilt Holdings, Inc.	United States
Future Processing, LLC	United States

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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 (deficiency).

### (d) Use of Estimates and Judgements

The preparation of these condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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

### **(d) Use of Estimates and Judgements (continued)**

The impacts of such estimates are pervasive throughout these condensed interim consolidated 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, valuation of acquired assets, fair value of share purchase warrants, share-based payments and deferred tax assets.

### **(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 condensed interim consolidated financial statements from the date that control commences until the date that control ceases. These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: CordovaCann Holdings Canada, Inc.; Cordova Investments Canada Inc.; and CordovaCann Holdings, Inc. and its wholly owned subsidiaries: Cordova CO Holdings, LLC, Cordova CA Holdings, LLC, CDVA Enterprises, LLC, Cordova OR Holdings, LLC and its wholly owned subsidiary Cordova OR Operations, LLC, and Cannabilt Holdings, Inc. and its wholly owned subsidiaries: Cannabilt Farms, LLC, Cannabilt OR Retail, LLC and Future Processing, LLC.

## **3. STANDARDS EFFECTIVE JULY 1, 2019**

### **Leases**

In January 2016, the IASB issued a new standard, IFRS 16 – *Leases* (“IFRS 16”). 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 superseded IAS 17 – *Leases*. There was no impact of adopting IFRS 16 on the Company’s condensed interim consolidated financial statements.

## **4. INVESTMENT IN RELATED PARTY**

On September 18, 2018, the Company subscribed for 500,000 convertible preferred shares of NWN Inc. (“NWN”) at a price of \$1.00 per preferred share (each, a “Preferred Share”) for a total consideration of \$500,000. Each Preferred Share is convertible into one common share of NWN, subject to appropriate adjustments for any stock splits, consolidations or other recapitalizations.

# CordovaCann Corp.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

## 4. INVESTMENT IN RELATED PARTY (continued)

NWN is a private company and management has determined that the cost of the investment was the most reliable basis for determining its fair value. The Company has not earned any dividend income on these preferred shares. Furthermore, NWN is considered to be a related party by virtue of a common officer and director. As at December 31, 2019, the investment in related party amounted to \$500,000 (June 30, 2019 – \$500,000).

## 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<b>Equipment</b>	<b>Land</b>	<b>Building</b>	<b>Construction in progress</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Cost</b>					
As at June 30, 2018	151,188	-	-	-	151,188
Additions	-	523,480	1,361,048	1,760,861	3,645,389
Translation adjustment	-	-	-	-	-
Impairment charge	(151,188)	-	-	-	(151,188)
As at June 30, 2019	-	523,480	1,361,048	1,760,861	3,645,389
Additions	-	-	-	-	-
Translation adjustment	-	(3,960)	(10,296)	(13,321)	(27,577)
Impairment charge	-	-	-	-	-
<b>As at December 31, 2019</b>	<b>-</b>	<b>519,520</b>	<b>1,350,752</b>	<b>1,747,540</b>	<b>3,617,812</b>
<b>Accumulated depreciation</b>					
As at June 30, 2018	12,770	-	-	-	12,770
Depreciation	30,529	-	-	-	30,529
Impairment charge	(43,299)	-	-	-	(43,299)
As at June 30, 2019	-	-	-	-	-
Additions	-	-	-	-	-
Impairment charge	-	-	-	-	-
<b>As at December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value (\$)</b>					
At June 30, 2018	138,418	-	-	-	138,418
At June 30, 2019	-	523,480	1,361,048	1,760,861	3,645,389
<b>At December 31, 2019</b>	<b>-</b>	<b>519,520</b>	<b>1,350,752</b>	<b>1,747,540</b>	<b>3,617,812</b>

# **CordovaCann Corp.**

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

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## **5. PROPERTY AND EQUIPMENT (continued)**

### *Land, building and construction in progress*

On April 4, 2018, the Company entered into an agreement to acquire a 27.5% interest of Cordova OR Operations, LLC (“OR Operations”) 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 \$534,311 (US \$400,000). On June 19, 2019, the Company purchased the remaining 72.5% interest in OR Operations (the “Purchase Date”). The asset acquisition amounted to \$3,645,389, comprised of land, building and construction in progress. Depreciation on these assets will be recorded from the date when these assets are available for use. As at December 31, 2019, these assets were not available for use.

### *Equipment*

The Company entered into an operating lease (the “Lease”) on February 1, 2018, under which the lessee (the “Lessee”) agreed to lease the above equipment for an initial period of twelve months. On February 1, 2019, the Lease was automatically extended for an additional period of twelve months. The Lessee was to make monthly payments of US \$5,040 due on or before the first day of each respective month. As at December 31, 2019, the Lessee has not made any payments towards the Lease and no revenue has been recognized.

## **6. MORTGAGE PAYABLE**

On June 16, 2019, the Company obtained financing through a mortgage (the “Mortgage”) in the amount of \$696,117 (US \$531,915) as part of the acquisition of OR Operations which has title to 6 acres of real estate in Clackamas County, Oregon (the “Property”). The Mortgage was due six months from the date of issuance at an initial draw of US \$500,000, implying interest at a rate of 12.77% per annum. As at the date of these financial statements, the Mortgage is in default and remains outstanding. The Mortgage after the date of default bears interest at 12% per annum, payable monthly, until the repayment of the outstanding amount. The Mortgage is secured by a first charge on the Property.

The total Mortgage outstanding as at December 31, 2019 was \$687,167 (US \$529,078) (June 30, 2019 – \$657,633). Total interest expense in relation to the Mortgage for the three and six months ended December 31, 2019 amounted to \$21,064 and \$42,133, respectively, (December 31, 2018 – \$nil).

## **7. PROMISSORY NOTES PAYABLE**

### *Promissory Note A – February 1, 2019*

On February 1, 2019, the Company issued an unsecured promissory note (the “Promissory Note A”) in the principal amount of US \$150,000. The Promissory Note A matured on May 1, 2019 and bears interest at a rate of 10% per annum, accrued monthly and due at maturity. As at the date of these financial statements, the Promissory Note A is in default and remains outstanding. In connection with the Promissory Note A, the Company also issued warrants for the purchase of 150,000 common shares of the Company exercisable until January 31, 2020 at a price of \$1.00 per share.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

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### **7. PROMISSORY NOTES PAYABLE (continued)**

The Promissory Note A was determined to be a compound instrument, comprising a liability and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no warrants. Using the residual method, the carrying amount of the warrants issued is the difference between the principal amount and the initial fair value of the financial liability. The fair value of the liability was determined to be \$192,142 (US \$146,729). The residual value of \$4,283 (US \$3,271) was allocated to warrants. The carrying value of the Promissory Note A, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note A, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at December 31, 2019, the value of the Promissory Note A amounted to \$212,679 (US \$163,750). Accretion expense of \$nil and interest expense of \$4,950 and \$9,902, respectively, was recorded for the three and six months ended December 31, 2019 (December 31, 2018 - \$nil).

#### *Promissory Note B – June 12, 2019*

On June 12, 2019, the Company issued a secured promissory note (the “Promissory Note B”) in the principal amount of \$261,740 (US \$200,000). The Promissory Note B matures on March 31, 2020 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. The Promissory Note B is secured by the convertible preferred shares investment in NWN Inc. Furthermore, this is considered to be a related party transaction by virtue of a common officer and director.

As at December 31, 2019, the value of the Promissory Note B amounted to \$281,164 (US \$216,479). Interest expense of \$9,900 and \$19,803, respectively, was recorded for the three and six months ended December 31, 2019 (December 31, 2018 - \$nil).

#### *Promissory Note C – June 19, 2019*

On June 19, 2019, the Company issued secured promissory notes (the “Promissory Note C”) in the aggregate principal amount of \$654,350 (US \$500,000). The Promissory Note C matures on December 18, 2019 and bears interest at a rate of 15% per annum, accrued monthly and due at maturity. The Promissory Note C is secured by a general security interest over all the assets of Cordova OR Holdings, LLC, a wholly owned subsidiary of the Company and parent to OR Operations. In connection with the Promissory Note C, the Company issued warrants for the purchase of 200,000 common shares of the Company exercisable until June 18, 2021 at a price of \$1.00 per share.

The Promissory Note C was determined to be a compound instrument, comprising of a liability and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no warrants. Using the residual method, the carrying amount of the warrants issued is the difference between the principal amount and the initial fair value of the financial liability.

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For the Three and Six Months Ended December 31, 2019 and 2018

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### **7. PROMISSORY NOTES PAYABLE (continued)**

The fair value of the liability was determined to be \$652,675 (US \$489,152). The residual value of \$14,367 (US \$10,848) was allocated to warrants. The carrying value of the Promissory Note C, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note C, such that the carrying amount of the financial liability will equal the principal balance at maturity.

On December 16, 2019, the Company extended the maturity date of the Promissory Note C to March 19, 2020 (the “Extension”) in exchange for a one time fee in the amount \$13,142 (US \$10,000), due at maturity and the issuance of additional warrants for the purchase of 200,000 common shares of the Company exercisable until June 18, 2021 at a price of \$0.30 per share.

On the date of the Extension, the fair value of the liability was determined to be \$696,151 (US \$530,643). The residual value of \$8,995 (US \$6,857) was allocated to warrants. The carrying value of Promissory Note C, as a result of the Extension, net of the warrant component, has been accreted using the effective interest rate method over the term of the Promissory Note C, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at December 31, 2019, the value of the Promissory Note C amounted to \$693,988 (US \$534,330). Accretion expense of \$7,713 and \$14,766, respectively, and interest expense of \$27,165 and \$51,923, respectively, was recorded for the three and six months ended December 31, 2019 (December 31, 2018 – \$nil).

#### *Promissory Note D – October 28, 2019*

On October 28, 2019, the Company issued a promissory note (the “Promissory Note D”) in the principal amount of US \$300,000. The Promissory Note D matured on December 31, 2019 and bears interest at a rate of 5% per annum, accrued monthly and due at maturity. As at the date of these financial statements, the Promissory Note D is in default and remains outstanding. Interest on the Promissory Note D subsequent to the maturity date bears interest at 15% per annum. The Promissory Note D is secured by a personal guarantee of vendors, as disclosed in Note 12 (d).

As at December 31, 2019, the value of the Promissory Note D amounted to \$393,109 (US \$302,671). Interest expense of \$3,526 (US \$2,671) was recorded for the three and six months ended December 31, 2019 (December 31, 2018 – \$nil).

### **8. CONVERTIBLE DEBENTURES**

#### *Convertible Debentures Series A-1 – March 13, 2019*

On March 13, 2019, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the “Debenture Units of Series A-1”) of the Company for gross proceeds of \$600,000; of which \$350,000 was received in cash and \$250,000 was issued in settlement of outstanding fees with a fair value amounting to \$237,300. The balance of \$12,700 has been recorded as a loss on settlement of fees.

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## 8. CONVERTIBLE DEBENTURES (continued)

Each Debenture Unit of Series A-1 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the “Debentures of Series A-1”) and 500 common share purchase warrants (the “Warrants of Series A-1”) of the Company. The Debentures of Series A-1 mature on March 12, 2021 and bear interest at a rate of 10% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the Debentures of Series A-1 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$1.00 per share. Furthermore, the Company also has the option to force conversion of the Debentures of Series A-1 and any accrued interest at the same conversion price if the Company’s common shares trade above \$2.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Each full Warrant of Series A-1 entitles the holder to purchase one common share of the Company until March 12, 2021 at an exercise price of \$1.20 per share. As a result, 300,000 Warrants of Series A-1 were issued related to the Debenture Units of Series A-1.

The Debenture Units of Series A-1 were determined to be a compound instrument, comprising a liability, a conversion feature and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no conversion rights. Using the residual method, the carrying amount of the conversion feature and the warrants issued is the difference between the principal amount and the initial carrying value of the financial liability.

The fair value of the liability was determined to be \$508,439. The residual value of \$91,561 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$62,498 and \$29,063, respectively. The carrying value of the Debentures of Series A-1, net of the equity components, have been accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at December 31, 2019, the value of the Debentures of Series A-1 amounted to \$597,570. Accretion expense of \$10,794 and \$21,111, respectively, and interest expense of \$15,000 and \$30,000, respectively was recorded for the three and six months ended December 31, 2019 (December 31, 2018 - \$nil).

### *Convertible Debentures Series A-2 – August 14, 2019*

On August 14, 2019, the Company closed a non-brokered private placement of unsecured subordinated convertible debenture units (the “Debenture Units of Series A-2”) of the Company for gross proceeds of \$713,000.

Each Debenture Unit of Series A-2 consists of \$1,000 principal amount of unsecured subordinated convertible debentures (the “Debentures of Series A-2”) and 500 common share purchase warrants (the “Warrants of Series A-2”) of the Company. The Debentures of Series A-2 mature on August 13, 2021 and bear interest at a rate of 10% per annum, accrued monthly and payable at maturity. The outstanding principal amount of the Debentures of Series A-2 and any accrued interest is convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of \$1.00 per share. Furthermore, the Company also has the option to force conversion of the Debentures of Series A-2 and any accrued interest at the same conversion price if the Company’s common shares trade above \$2.50 per share for ten consecutive trading days on the Canadian Securities Exchange. Each full Warrant of Series A-2 entitles the holder to purchase one common share of the Company until August 13, 2021 at an exercise price of \$1.20 per share. As a result, 356,500 Warrants of Series A-2 were issued related to the Debenture Units of Series A-2.

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## **8. CONVERTIBLE DEBENTURES (continued)**

The Debenture Units of Series A-2 were determined to be a compound instrument, comprising a liability, a conversion feature and warrants. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 19% which is estimated to be the borrowing rate available to the Company for similar instruments of debt having no conversion rights. Using the residual method, the carrying amount of the conversion feature and the warrants issued is the difference between the principal amount and the initial carrying value of the financial liability.

The fair value of the liability was determined to be \$604,195. The residual value of \$108,805 was allocated to the equity portion of convertible debt and warrants based on their pro-rata fair values of \$74,989 and \$33,816, respectively. The carrying value of the Debentures of Series A-2, net of the equity components, have been accreted using the effective interest rate method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

As at December 31, 2019, the value of the Debentures of Series A-2 amounted to \$648,904. Accretion expense of \$11,838 and \$17,773, respectively, and interest expense of \$17,825 and \$26,936, respectively, was recorded for the three and six months ended December 31, 2019 (December 31, 2018 - \$nil).

### *Debenture Unit Deposits*

During the three and six months ended December 31, 2019, the Company received a total of \$201,171 in deposits related to subscriptions for a convertible debenture offering (the "Offering"). Each \$1,000 unit of the Offering shall be comprised of a \$1,000 principal amount of a 15% unsecured subordinated convertible debenture (the "Debenture") and 500 common share purchase warrants (the "Warrants"). The Debentures shall mature twelve months from the date of issuance and shall be exercisable into common shares of the Company at a price of \$0.25 per share any time prior to maturity by the holder and at the option of the Company in certain circumstances. The Warrants shall be exercisable for a period of twenty-four months from the date of issuance and exercisable at a price of \$0.30 per share. As at the date of this report, the Debentures and Warrants related to the Offering remain unissued.

## **9. SHARE CAPITAL**

The authorized share capital of the Company consists of an unlimited number of common shares. During the three and six months ended December 31, 2019 and 2018, the Company had no common share transactions.

## **10. OPTIONS**

On November 22, 2018, 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.

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### 10. OPTIONS (continued)

Outstanding options as at December 31, 2019 are as follows:

	<b>Options Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Life Remaining (years)</b>
Executive Officers	900,000	\$0.78	1.12
Directors	100,000	\$0.40	1.04
Consultants	750,000	\$0.70	1.10
	<b>1,750,000</b>		

<b>Grant Date</b>	<b>Expiry Date</b>	<b>Options Outstanding</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>	<b>Fair Value</b>
Jan. 16, 2018 <sup>(i)</sup>	Jan. 15, 2021	1,000,000	1,000,000	\$0.40	\$377,024
Mar. 9, 2018 <sup>(ii)</sup>	Mar. 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:

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 three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the options. The options were issued during the year ended June 30, 2018 fully vested and were expensed in the year ended June 30, 2018 as share based compensation.

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## 11. WARRANTS

	Warrants Outstanding		Weighted Average Exercise Price	Weighted Average Life Remaining (years)
<b>June 30, 2018</b>	<b>6,650,000</b>	\$	<b>0.54</b>	<b>1.37</b>
Issued	3,725,000		<b>1.69</b>	<b>1.65</b>
Exercised	(750,000)		<b>0.15</b>	<b>0.00</b>
Forfeited	(1,000,000)		<b>2.00</b>	<b>0.00</b>
Expired	(250,000)		<b>0.10</b>	<b>0.00</b>
<b>June 30, 2019</b>	<b>8,375,000</b>		<b>0.93</b>	<b>1.05</b>
Issued	556,500		<b>0.88</b>	<b>1.56</b>
Expired	(3,400,000)		<b>0.26</b>	<b>0.00</b>
<b>December 31, 2019</b>	<b>5,531,500</b>	\$	<b>1.33</b>	<b>1.10</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 three months ended June 30, 2018. On October 31, 2019, the warrants expired.

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 three and six months ended December 31, 2019, the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

- 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 April 30, 2019, the warrants were exercised.

For the three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

- 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. On April 30, 2019, the deliverables were not met and the warrants expired.

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

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## 11. WARRANTS (continued)

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 three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

- 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 three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

- 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 December 31, 2019, 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 three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

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## 11. WARRANTS (continued)

- 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. On September 14, 2019, the deliverables were not met and the warrants expired.

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

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 three and six months ended December 31, 2019 the Company expensed \$nil (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

- g) 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 upon issuance while the remaining 150,000 warrants shall vest in six equal tranches of 25,000 warrants every three months from the date of issuance.

The fair value of these issued warrants of \$207,833 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.35
Risk-free interest rate	2.27 %
Expected life	2 years
Estimated volatility in the market price of the common shares	126 %
Dividend yield	Nil

For the three and six months ended December 31, 2019 the Company expensed \$7,621 and \$20,438, respectively, (December 31, 2018 – \$134,052) of the fair value of the warrants as share based compensation.

- h) 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 four equal tranches of 62,500 warrants every three months from the date of issuance.

The fair value of these issued warrants of \$131,421 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

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## 11. WARRANTS (continued)

Stock price	\$1.05
Risk-free interest rate	2.25 %
Expected life	2 years
Estimated volatility in the market price of the common shares	124 %
Dividend yield	Nil

For the three and six months ended December 31, 2019 the Company expensed \$1,428 and \$11,467, respectively, (December 31, 2018 – \$57,040) of the fair value of the warrants as share based compensation.

- i) On October 31, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 1,000,000 common shares of the Company exercisable until October 30, 2022 at a price of \$2.00 per share. The warrants shall vest in equal tranches of 250,000 every six months from the date of issuance.

The fair value of these issued warrants of \$1,251,625 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.30
Risk-free interest rate	2.41 %
Expected life	4 years
Estimated volatility in the market price of the common shares	215 %
Dividend yield	Nil

For the three and six months ended December 31, 2019, the Company expensed \$91,263 and \$260,752, respectively, (December 31, 2018 – \$144,432) of the fair value of the warrants as share based compensation.

- j) On October 31, 2018 and in connection to a consulting agreement, the Company issued warrants for the purchase of 1,000,000 common shares of the Company exercisable until October 30, 2022 at a price of \$2.00 per share. The warrants shall vest in equal tranches of 250,000 every six months from the date of issuance.

The fair value of these issued warrants of \$1,251,625 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.30
Risk-free interest rate	2.41 %
Expected life	4 years
Estimated volatility in the market price of the common shares	215 %
Dividend yield	Nil

For the three and six months ended December 31, 2019, the Company expensed \$nil (December 31, 2018 – \$144,432) of the fair value of the warrants as share based compensation. On February 15, 2019, all 1,000,000 warrants previously issued to the consultant were forfeited. As a result, the Company

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## 11. WARRANTS (continued)

reversed the previously recorded share based compensation expense during the three and nine months ended March 31, 2019.

- k) On December 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 November 30, 2020 at a price of \$1.50 per share. Of these issued warrants, 100,000 vested immediately upon issuance while the remaining 150,000 warrants shall vest in three equal tranches of 50,000 warrants every three months from the date of issuance.

The fair value of these issued warrants of \$138,853 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$1.06
Risk-free interest rate	2.14 %
Expected life	2 years
Estimated volatility in the market price of the common shares	116 %
Dividend yield	Nil

For the three and six months ended December 31, 2019 the Company expensed \$nil and \$6,171, respectively, (December 31, 2018 – \$106,454) of the fair value of the warrants as share based compensation.

- l) On February 1, 2019 and in connection to a consulting agreement, the Company issued warrants for the purchase of 325,000 common shares of the Company exercisable until January 31, 2022 at a price of \$1.00 per share. Of these issued warrants, 81,250 vested immediately while the remaining 243,750 warrants shall vest in three equal tranches of 81,250 warrants every three months from the date of issuance.

The fair value of these issued warrants of \$250,793 was determined using the Black-Scholes Option Pricing Model with the following assumptions:

Stock price	\$0.95
Risk-free interest rate	1.83 %
Expected life	3 years
Estimated volatility in the market price of the common shares	152 %
Dividend yield	Nil

For the three and six months ended December 31, 2019 the Company expensed \$6,967 and \$38,316, respectively, (December 31, 2018 – \$nil) of the fair value of the warrants as share based compensation.

During the three and six months ended December 31, 2019 the Company expensed \$107,279 and \$337,144, respectively, in the fair value of warrants as a result of the issuances which have been recorded as share based compensation (December 31, 2018 – \$586,410).

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## **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 US \$100,000 for such exclusivity until termination by either party. In October 2019, the Company terminated the MOU. During the three and six months ended December 31, 2019 the Company paid and expensed a total of \$nil as an exclusivity fee (December 31, 2018 – \$15,682).

### **(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 condensed interim consolidated financial statements.

### **(c) Commitments**

During the six months ended December 31, 2019, the Company received a notice of termination letter (the “Termination Letter”) from the landlord of a leased property, who subsequently repossessed the premises. The landlord of leased property has notified the Company that to the extent applicable, it intends to seek recovery of damages incurred including without limitation, the costs of recovering the leased property, solicitor fees, arrears and all future rental payments following the notice of termination.

The Company has expensed its rental deposit as a result of the Termination Letter. As of the date of this report, the Company has not received any claims from the landlord as a result of the Termination Letter.

### **(d) Deposit in Joint Forces**

On November 7, 2019 and in connection with a LOI, the Company advanced US \$300,000 (the “Advance”) in exchange for Promissory Note D. The Promissory Note D has been personally guaranteed by the vendors (the “Personal Guarantee”).

### **(e) Loss on Deposit**

During the year ended June 30, 2019, the Company made certain non-refundable deposits towards a transaction in California (the “California Transaction”). On October 10, 2019, the Company terminated the California Transaction and recorded a loss on the deposit in the amount of \$396,000.

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## **13. RELATED PARTY TRANSACTIONS**

Related party transactions for the three and six months ended December 31, 2019 and 2018 and the balances as at those dates, not disclosed elsewhere in these condensed interim consolidated financial statements are:

- a) During the three and six months ended December 31, 2019, the Company expensed \$222,420 and \$460,753 respectively, (December 31, 2018 – \$288,507 and \$567,509, respectively), 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 December 31, 2019, the Company had fees payable to officers and directors of the Company of \$1,006,627 (June 30, 2019 – \$546,653).

## **14. 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 cash and cash equivalents, promissory note and accounts payable and accrued liabilities 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 these condensed interim consolidated financial statements. The following analysis provides a measurement of risks as at December 31, 2019:

#### **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.

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

As at December 31, 2019, there is substantial doubt about the Company's ability to continue as a going concern primarily due to its history of losses and negative working capital. 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 December 31, 2019, 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.

## **15. 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 December 31, 2019, the Company's shareholders' deficiency was \$1,138,499 (June 30, 2019 – shareholders' equity of \$362,570). The Company's objectives when managing capital are as follows:

- (i) to safeguard the Company's ability to continue as a going concern; and
- (ii) to raise sufficient capital to meet its business objectives.

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.

# **CordovaCann Corp.**

(formerly LiveReel Media Corporation)

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

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## **16. COMPARATIVE AMOUNTS**

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

## **17. SUBSEQUENT EVENTS**

On January 16, 2020 and in accordance with the terms of a convertible debenture instrument, the Company received a conversion notice to convert a total of \$250,000 in principal and \$21,164 in accrued interest into 271,164 common shares of the Issuer at a price of \$1.00 per share. On January 22, 2020, such common shares were issued.

On February 25, 2020, the Company appointed Mr. Joe Anto as a Senior Advisor to the Chief Executive Officer. In connection with Mr. Anto's appointment, the Company issued a total of 3,000,000 common share purchase warrants exercisable until February 23, 2023, at a price of \$0.25 per share. Upon issuance, 500,000 of such warrants vested immediately and the remainder shall vest over time as certain acquisition and duration milestones are met.

On February 25, 2020, the Company issued a total of 800,000 fully-vested common share purchase options under the Company's stock option plan. Such options shall be exercisable until February 24, 2023 at a price of \$0.25 per share.