



## **SUNNIVA INC. ANNOUNCES Q3 2019 FINANCIAL RESULTS AND DISPUTE RELATED TO CATHEDRAL CITY GLASSHOUSE**

- Quarterly revenue from continuing operations increase of 354% over the comparative period
- Year-to-date revenue from continuing operations increase of 326% over the comparative period

**VANCOUVER, BC – November 26, 2019** - Sunniva Inc. (“Sunniva”, the “Company”, “we”, “our” or “us”) (CSE:SNN) (OTCQB:SNNVF), a North American provider of cannabis products and services, today released its financial results and management’s discussion and analysis for the three and nine months ended September 30, 2019. All figures are reported in Canadian dollars (\$), unless otherwise indicated. Sunniva’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). The Company also reports receipt of a 30-day notice of termination under its build to suit lease for the Cathedral City Glasshouse and notices of default regarding funding of the facility.

“While the third quarter saw further progress with the construction of the Cathedral City Glasshouse as we move towards its completion, significant cost overruns have resulted in delays in payments and disputes over responsibility to cover construction costs. Sunniva has already funded over US \$22 million in tenant improvements. A dispute about additional payments required to complete construction has prompted our lessor to give us a 30-day notice of termination and default under our build to suit agreement. We intend to vigorously defend our rights under the agreement,” said Dr. Anthony Holler, CEO, Sunniva. “We continue to work towards finalizing the sale of Natural Health Services Ltd. and completion of the disposition of Sunniva Medical Inc., and the property at Okanagan Falls. While our principal focus is on completing these transformational corporate objectives, we have been successful in growing revenues from our existing businesses which year to date have exceeded our 2018 total revenue.”

“If the Natural Health Services and Sunniva Medical Inc. transactions are completed, we will have achieved our transition to a pure play cannabis company in California,” said Holler. “Sunniva is unwavering in our pursuit of our vertical integration strategy and the large scale, high-quality flower production from the world-class glasshouse will provide supply our extraction facility and will enable us to continue the development of our flower and concentrate brands and distribution businesses.”



## Financial Highlights – Three and nine months ended September 30, 2019

Consolidated Financial Highlights expressed in 000's of CAD\$, except per share amounts

	Three Months Ended September 30,		
	2019	2018	Change
Revenue	\$ 5,361	\$ 1,182	\$ 4,179
Cost of Goods Sold	3,788	968	2,820
Gross Margin	1,573	214	1,359
Selling, General and Administrative	6,545	4,543	2,002
Production Facility Costs	1,262	-	1,262
Share-based Payments	293	2,303	(2,010)
Amortization Expense	612	251	361
Loss from Continuing Operations	(7,139)	(6,883)	(256)
Net Loss	\$ (20,462)	\$ (6,781)	\$ (13,681)
Basic Loss Per Share	\$ (0.52)	\$ (0.21)	\$ (0.31)
Weighted Average Number of Shares	39,174,040	32,042,054	7,131,986
	Nine Months Ended September 30,		
	2019	2018	Change
Revenue	\$ 21,228	\$ 4,980	\$ 16,248
Cost of Goods Sold	15,942	4,171	11,771
Gross Margin	5,286	809	4,477
Selling, General and Administrative	18,518	10,788	7,730
Production Facility Costs	3,051	-	3,051
Share-based Payments	1,821	6,408	(4,587)
Amortization Expense	1,763	678	1,085
Loss from Operations	(19,867)	(17,065)	(2,802)
Net Loss	\$ (38,888)	\$ (17,961)	\$ (20,927)
Basic Loss Per Share	\$ (1.00)	\$ (0.59)	\$ (0.41)
Weighted Average Number of Shares	39,014,649	30,386,117	8,628,532

## Results of Operations – Three and nine months ended September 30, 2019

For the three and nine months ended September 30, 2019, the Company's continuing operations generated \$5.4 million and \$21.2 million in revenue as compared to \$1.2 million and \$5.0 million during the three and nine months ended September 30, 2018. CP Logistics, LLC ("CPL") contributed \$2.6 million and \$14.1 million and Full-Scale Distributors, LLC ("FSD") contributed \$2.8 million and \$7.1 million over these same periods. Net loss from continuing operations for the three and nine months ended September 30, 2019 was \$9.2 million and \$26.0 million as compared to \$7.0 million and \$17.5 million during the three and nine months ended September 30, 2018. Natural Health Services Ltd. ("NHS") is classified as a discontinued operation as at September 30, 2019. Net loss from discontinued operations for the three and nine months ended September 30, 2019 was \$11.3 million and \$12.9 million as compared to net



income of \$0.3 million and a net loss of \$0.4 million during the three and nine months ended September 30, 2018.

The key components contributing to the change in net loss from the three and nine months ended September 30, 2019 compared to the prior comparative periods comprise the following:

- Revenue increased by \$4.2 million and \$16.2 million during the three and nine months ended September 30, 2019. CPL revenue increased by \$2.5 million and \$14.0 million over the comparative periods due to increased sales from the extraction business line and the commencement of CPL's packaging business line. FSD revenue increased by \$1.7 million and \$2.2 million over these comparative periods due to growth from existing customers and an increased customer base year over year.
- Gross margin increased by \$1.4 million and \$4.5 million during the three and nine months ended September 30, 2019 due to the significant increase in sales noted above. On a percentage basis, gross margin increased from 18% and 16% in the three and nine months ended September 30, 2018 to 29% and 25% in the three and nine months ended September 30, 2019 due to the commencement of operations in CPL, which realized larger margins than FSD.
- Selling, general and administration expenses increased by \$2.0 million and \$7.7 million during the three and nine months ended September 30, 2019. The increase is due to the continued expansion of US operations, while incurring additional costs in relocating the corporate functions from Vancouver, British Columbia to Carlsbad, California. In addition, the Company recognized a provision on accounts receivable of \$1.4 million and \$4.2 million for the three and nine months ended September 30, 2019 compared to \$0.1 million for the three and nine months ended September 30, 2018.
- Production facility costs of \$1.3 million and \$3.1 million were incurred for the three and nine months ended September 30, 2019. The Company had no such costs in the comparative periods.
- Share-based payment expenses decreased from \$2.3 million and \$6.4 million in the three and nine months ended September 30, 2018 to \$0.3 million and \$1.8 million in the three and nine months ended September 30, 2019. The decrease is due to several option holders departing with the corporate transition and the accounting under IFRS where under the recognition of share-based payment expense decreases as options continue to vest.
- Fair value changes in derivative instruments due to the revaluation of secured convertible promissory notes and warrants decreased from a gain of \$1.1 million and \$0.8 million for the three and nine months ended September 30, 2018 to no impact and a loss of \$0.5 million for the three and nine months ended September 30, 2019. This was due to all derivative instruments being settled in early 2019.
- Amortization and depreciation expense increased by \$0.4 and \$1.1 million during the three and nine months ended September 30, 2019 due to a higher cost base of the assets in 2019.
- Loss from discontinued operations increased by \$11.3 million and \$12.9 million during the three and nine months ended September 30, 2019 due to the NHS impairment of \$9.6 million. The



impairment reduced the net carrying book value of NHS to the recoverable amount based on the purchase agreement.

### **Key Developments in the Third Quarter 2019**

- On July 18, 2019, the Company announced the receipt of a non-refundable payment of deposit in the amount of \$1.0 million as part of a share purchase agreement (the “SMI Share Purchase Agreement”) with respect to the sale of SMI to CannaPharmaRx, Inc. (the “SMI Transaction”). The SMI Transaction was initially expected to close in August 2019. On October 3, 2019, the settlement of the purchase price was amended from an all cash deal of \$20.0 million to \$16.0 million in cash and \$4.0 million by way of promissory note. In addition, the Company received an incremental non-refundable deposit of \$0.7 million. As at November 26, 2019, the terms of the SMI Transaction are not final and the closing date is yet to be determined. The Company and CannaPharmaRx continue to work towards the closing of the SMI Transaction.
- On August 1, 2019, the Company closed a non-brokered private placement (the “August Unit Offering”) of 5.77 million units (“August Units”) of the Company for gross proceeds of \$5.77 million. On August 29, 2019 the Company closed a second tranche of the August Unit Offering of 1.46 million August Units for gross proceeds of \$1.46 million. On September 12, 2019, the Company closed a third tranche of 0.33 million August Units for gross proceeds of \$0.33 million. In aggregate, a total of 7.56 million August Units were issued, with each August Unit consisting of a principal amount of unsecured promissory notes of the Company (“Promissory Notes”) bearing interest at a rate of 10% per annum and 0.40 common share purchase warrants of the Company (“Warrants”) at an exercise price of \$2.50 per Warrant. The Promissory Notes mature 6 months from the respective closing dates.
- On August 28, 2019, the Company closed a non-brokered private placement (the “Subsequent August Unit Offering”) of 1.5 million units (“Subsequent August Units”) of the Company for gross proceeds of \$2.0 million (US\$1.5 million). Each Subsequent August Unit consists of a principal amount of Promissory Notes bearing interest at a rate of 10% per annum and 1.11 Warrants at an exercise price of \$1.20 (US\$0.90) per Warrant. The Promissory Notes mature 18 months from the respective closing dates.
- On September 10, 2019, the Company entered into a share purchase agreement (the “NHS Share Purchase Agreement”) among the Company, NHS, Cura-Can Health Corp. (“Cura-Can”) and The Clinic Network Canada, Inc. (“TCNC”) to sell all of the issued and outstanding shares in the capital of NHS to TCNC for gross proceeds of \$9.0 million payable by way of \$4.5 million in cash and \$4.5 million of security consideration through the issuance of 4,500,000 preferred shares of TCNC (the “NHS Transaction”). As discussed below this agreement is expected to be amended. The transaction is expected to close in the fourth quarter of 2019.

### **Recent Operating Developments Subsequent to September 30, 2019**

- On October 15, 2019, the Company closed a second tranche of the Subsequent August Unit Offering of 6.0 million Subsequent August Units for gross proceeds of \$8.0 million (US\$6.0 million).



In aggregate, a total of 7.5 million Subsequent August Units were issued for total gross proceeds raised by the Subsequent August Unit Offering of \$10.0 million (US\$7.5 million).

- On October 16, 2019, the Company announced an amendment to the terms of 718,473 performance warrants (the "Performance Warrants") issued in conjunction with the acquisition of LTYR Logistics, LLC on December 31, 2018. The Performance Warrants were convertible into 718,473 common shares of the Company ("Performance Shares") upon the satisfaction of certain operational milestones (the "Milestones"). The Performance Warrants were amended by replacing the original Milestone of opening a distribution business at the Company's facility in Long Beach, California with the opening of a distribution business at the Company's facility in Coachella, California. Upon amendment of the Performance Warrants, the Milestones were satisfied and the Company converted the Performance Warrants into Performance Shares.
- On November 25, 2019, the Company received a 30-day notice of termination and a notice of default from Sunniva Production Campus, LLC for items related to payment of outstanding balances and failure to meet certain conditions of the build to suit lease agreement for Cathedral City Glasshouse. In addition, the Company received a notice of default from a promissory note holder for not applying a certain portion of the note proceeds to agreed upon outstanding amounts. The Company is currently consulting with its legal counsel and intends to defend its position. The ramifications of these notices are uncertain at this time. As a result of these notices, the timing of receipt of the Company's certificate of occupancy for the Cathedral City Glasshouse cannot be estimated at this time.
- The Company, NHS, Cura-Can and TCNC have entered into a non-binding agreement to amend and restate the NHS Share Purchase Agreement, whereby Cura-Can (parent of TCNC) would acquire the share of NHS. Under the amended terms, the purchase price of \$9.0 million is payable by way of \$250,000 in cash and \$8.75 million of security consideration of 5.83 million in Class A common share of Cura-Can (parent company of TCNC). The Company will be entitled to certain conversion and redemption rights for the Cura-Can shares based on Cura-Can's ability to affect a liquidity event for TCNC. The consideration replaces the prior consideration for NHS pursuant to the original agreement of \$4.5 million in cash and \$4.5 million of security consideration through the issuance of 4,500,000 preferred shares of TCNC. As of November 26, 2019, the terms of the NHS Share Purchase Agreement are not final, and the closing date is yet to be determined.

Copies of our consolidated financial statements for the three and nine months ended September 30, 2019 and related management's discussion and analysis of financial results are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Company's executive management will discuss the results during a conference call on Wednesday November 27, 2019 at 11:00 am Eastern Time / 8:00 am Pacific Time. To participate in the call please dial 1-800-319-4610, or (604) 638-5340. An audio replay will be available shortly after the call by dialing 1-855-669-9658 or (604) 674-8052 and entering code 3884. The replay will be available for two weeks following the call.



For more information about the Company please visit: [www.sunniva.com](http://www.sunniva.com) and view our construction photo gallery and progress videos at [www.sunniva.com/sunniva-campus/california-campus](http://www.sunniva.com/sunniva-campus/california-campus).

To be added to the Sunniva email distribution list please register at [www.sunniva.com/email-alerts](http://www.sunniva.com/email-alerts).

Neither the Canadian Securities Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Canadian Securities Exchange) accepts responsibility for the adequacy or accuracy of this release.

### **About Sunniva Inc.**

Sunniva, through its subsidiaries, is building a vertically integrated cannabis company operating in two of the world's largest legal cannabis markets – California and Canada. In Canada, Sunniva's wholly owned subsidiary Natural Health Services Ltd. operates medical cannabis clinics that provide educational and clinical services to patients. In California, Sunniva is constructing a 325,000 square-foot, purpose-built cGMP designed greenhouse for cannabis cultivation and operates a fully licensed cannabis extraction facility, in-house marketing and licensed cannabis distribution businesses.

### **Forward Looking Statements**

This press release contains forward-looking statements within the meaning of applicable securities laws. All statements that are not historical facts, including without limitation, statements regarding future estimates, plans, programs, forecasts, projections, objectives, assumptions, expectations or beliefs of future performance, statements regarding the Company's operations and growth opportunities; the expected timing of completion of the Cathedral City Glasshouse, including the timing of receipt of the certificate of occupancy; the timing of the expected completion of the SMI Transaction; the anticipated timing of completion of the NHS Transaction; the transition to a pure play cannabis company in California; the Company's strategy of vertical integration; the expectation that the large scale, high quality flower production from its world-class glasshouse will enable the Company to fully utilize its extraction facility and will enable the Company to internally supply the continued development of its flower and concentrate brands; and the timing for the conference call to discuss financial results are "forward-looking statements." Forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the risk factors included in the Sunniva's continuous disclosure documents available on [www.sedar.com](http://www.sedar.com). These factors should be considered carefully, and readers are cautioned not to place undue reliance on such forward-looking statements. Although Sunniva has attempted to identify important risk factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other risk factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in forward-looking statements. Sunniva assumes no obligation to update any



forward-looking statement, even if new information becomes available as a result of future events, new information or for any other reason except as required by law.

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