



SUNNIVA INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 30, 2019
(In Canadian Dollars)

SUNNIVA INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

As at September 30, 2019

In thousands of Canadian dollars, except share amounts

ASSETS	Notes	Audited	
Current assets		September 30, 2019	December 31, 2018
Cash and cash equivalents		\$ 304	\$ 2,141
Restricted cash		-	337
Accounts receivable	3	4,326	3,881
Inventory	4	2,914	4,240
Prepaid expenses and deposits		1,576	1,690
Assets held-for-sale	7	33,343	5,605
Total current assets		42,463	17,894
Non-current assets			
Deposits on leases and properties		1,222	1,538
Property, plant and equipment	5	60,806	59,056
Intangible assets	6	17,227	24,551
Goodwill	6	8,168	22,281
Total non-current assets		87,423	107,426
Total assets		\$ 129,886	\$ 125,320
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 9,464	\$ 14,320
Deferred revenue	12	190	515
Short term loans	14	2,044	3,492
Warrant liability	10	224	392
Lease liabilities	11	1,184	-
Unsecured promissory notes	10	12,541	-
Liabilities associated with assets held-for-sale	7	8,748	-
Provisions	13	57	441
Total current liabilities		34,452	19,160
Non-current liabilities			
Convertible debenture financing	9	22,688	8,319
Unsecured promissory notes	10	1,775	-
Lease liabilities	11	17,298	11,877
Deferred income taxes		-	951
Total non-current liabilities		41,761	21,147
Total liabilities		76,213	40,307
Shareholders' equity			
Share capital	15(b)	118,918	113,351
Warrants	15(f)(g)	12,870	12,393
Equity component of convertible debentures	9	2,308	1,286
Contributed surplus		11,521	11,699
Accumulated other comprehensive loss		1,546	2,507
Deficit		(93,490)	(56,223)
Total shareholders' equity		53,673	85,013
Total liabilities and shareholders' equity		\$ 129,886	\$ 125,320

Going concern (note 2A), Commitments and contingencies (note 20), Subsequent events (note 21)

Approved on behalf of the Board of Directors:

(Signed) "Anthony Holler"

Dr. Anthony Holler, Director

(Signed) "Norm Mayr"

Norm Mayr, Director

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

SUNNIVA INC.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)

For the three and nine months ended September 30, 2019 and September 30, 2018

In thousands of Canadian dollars, except share amounts

	Notes	Three months ended		Nine months ended	
		September 30,		September 30,	
		2019	2018	2019	2018
REVENUE	19	\$ 5,361	\$ 1,182	\$ 21,228	\$ 4,980
COST OF GOODS SOLD		3,788	968	15,942	4,171
GROSS MARGIN		1,573	214	5,286	809
EXPENSES					
Sales and marketing		1,243	254	4,528	372
General and administrative		5,302	4,289	13,990	10,416
Production facility costs		1,262	-	3,051	-
Share-based payments	15(h)	293	2,303	1,821	6,408
Amortization and depreciation		612	251	1,763	678
		8,712	7,097	25,153	17,874
Loss from continuing operations		(7,139)	(6,883)	(19,867)	(17,065)
Other (income) expenses					
Fair value changes in derivative instruments	15(d)	-	(1,078)	455	(750)
Impairment (reversal) on assets held-for-sale	7	(74)	-	2,243	-
Gain on settlement of promissory note		-	-	-	(1,011)
Foreign exchange (gain) loss		(49)	(77)	76	45
Interest and other expenses		2,061	385	4,179	1,268
Loss before income taxes		(9,077)	(6,113)	(26,820)	(16,617)
Taxes					
Deferred tax expense (recovery)		123	930	(843)	930
Net loss from continuing operations		(9,200)	(7,050)	(25,977)	(17,547)
Net income (loss) from discontinued operations	7	(11,262)	269	(12,911)	(414)
Net loss		(20,462)	(6,781)	(38,888)	(17,961)
Other comprehensive income:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange (gain) loss on translation of foreign operation		(840)	340	961	(670)
Comprehensive loss		\$ (19,622)	\$ (7,121)	\$ (39,849)	\$ (17,291)
Loss per share					
Basic and diluted loss per share (dollars)		\$ (0.52)	\$ (0.21)	\$ (1.00)	\$ (0.59)
Weighted average number of shares outstanding					
Basic and diluted		39,174,040	32,042,054	39,014,649	30,386,117

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

SUNNIVA INC.

Condensed Interim Consolidated Statements of Changes of Equity (Unaudited)

For the three and nine months ended September 30, 2019

In thousands of Canadian dollars, except share amounts

	Note	Number of shares	Share capital	Warrants	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2018		26,636,073	53,502	2,048	1,806	4,755	(263)	(27,549)	34,299
Common shares issued in bought deals	15(f)	2,850,900	27,796	-	-	-	-	-	27,796
Finders' warrants converted into shares	15(c)	349,770	1,640	-	-	(440)	-	-	1,200
Financing warrants converted into shares	15(d)	69,400	496	-	-	-	-	-	496
Convertible debentures converted into shares	9	325,563	1,498	-	(315)	-	-	-	1,183
FSD note converted into shares	15(b)	500,000	5,470	-	-	-	-	-	5,470
Stock options converted into common shares	15(h)	231,250	1,275	-	-	(489)	-	-	786
Share-based payments	15(h)	-	-	-	-	6,408	-	-	6,408
Forfeited options	15(h)	-	-	-	-	(133)	-	133	-
Warrants converted into shares	15(e)	1,091,259	7,973	(2,048)	-	-	-	-	5,925
Warrants issued in bought deal	15(f)	-	(4,328)	5,195	-	-	-	-	867
Share issuance costs	15(b)	-	(2,874)	-	-	-	-	-	(2,874)
Comprehensive loss for the period		-	-	-	-	-	670	(17,961)	(17,291)
Balance at September 30, 2018		32,054,215	92,448	5,195	1,491	10,101	407	(45,377)	64,265
Common shares issued in bought deals	15(f)	4,370,000	23,030	-	-	-	-	-	23,030
Convertible debentures converted into shares	9	222,616	1,024	-	(205)	-	-	-	819
Share-based payments	15(h)	-	-	-	-	1,839	-	-	1,839
Forfeited options	15(h)	-	-	-	-	(241)	-	241	-
Warrants issued in bought deals	15(f)	-	(4,626)	5,223	-	-	-	-	597
Acquisition of LTYR Logistics, LLC		1,436,949	3,692	-	-	-	-	-	3,692
Warrants Issued in LTYR Logistics, LLC Acquisition		-	-	1,975	-	-	-	-	1,975
Share issuance costs	15(b)	-	(2,217)	-	-	-	-	-	(2,217)
Comprehensive loss for the year		-	-	-	-	-	2,100	(11,087)	(8,987)
Balance at December 31, 2018		38,083,780	113,351	12,393	1,286	11,699	2,507	(56,223)	85,013
Financing warrants converted into shares	15(d)	430,600	2,272	-	-	-	-	-	2,272
Convertible debentures converted into shares	9	582,532	2,746	-	(271)	-	-	-	2,475
Settlement of convertible debenture interest	9	84,625	254	-	-	-	-	-	254
Equity component of convertible debentures	9	-	-	-	1,293	-	-	-	1,293
Warrants issued with unsecured promissory notes	15(g)	-	-	477	-	-	-	-	477
Stock options converted into common shares	15(h)	25,000	150	-	-	(65)	-	-	85
Share-based payments	15(h)	-	-	-	-	1,821	-	-	1,821
Forfeited options	15(h)	-	-	-	-	(1,621)	-	1,621	-
Expiry of finders' warrants	15(c)	-	313	-	-	(313)	-	-	-
Share issuance costs	15(b)	-	(168)	-	-	-	-	-	(168)
Comprehensive loss for the period		-	-	-	-	-	(961)	(38,888)	(39,849)
Balance at September 30, 2019		39,206,537	118,913	12,870	2,308	11,521	1,546	(93,490)	53,673

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

SUNNIVA INC.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three and nine months ended September 30, 2019 and September 30, 2018

In thousands of Canadian dollars

	Notes:	Three months ended September 30,		Nine months ended September 30,	
		2019	2018	2019	2018
Cash provided by (used in) operating activities					
Net loss		\$ (20,462)	\$ (6,781)	\$ (38,888)	\$ (17,961)
Adjustments to reconcile net loss to net cash utilized in operating activities:					
Accretion	9, 10	845	163	1,487	510
Interest on finance liabilities	11	175	-	419	-
Bad debt expense	17	1,338	-	4,180	-
Change in provisions	13	-	(182)	(384)	(79)
Fair value changes in derivative instruments	15(d)	-	(1,078)	455	(750)
Share-based payments	15(h)	293	2,303	1,821	6,408
Impairment on assets held-for-sale	7	10,528	-	12,771	-
Gain on settlement of promissory note		-	-	-	(1,011)
Amortization and depreciation	5, 6	1,564	751	4,623	2,171
Deferred tax expense (recovery)		(163)	182	(1,732)	(120)
Net cash utilized in operating activities		(5,882)	(4,642)	(15,248)	(10,832)
Changes in non-cash operating assets and liabilities:					
Restricted cash		-	-	-	(337)
Accounts receivable		58	1,133	(4,625)	(68)
Inventory		1,944	(1,024)	1,299	(919)
Prepaid expenses		369	(1,313)	92	(1,217)
Accounts payable and accrued liabilities		(1,512)	3,666	467	5,162
Deferred revenue		(541)	88	(80)	(420)
Net cash used in operating activities		(5,564)	(2,092)	(18,095)	(8,631)
Cash used in investing activities					
Deposits on properties and leases		(47)	557	(47)	(1,109)
Purchase of businesses	8	-	-	(135)	-
Purchase of property, plant, and equipment	5	(3,823)	(13,539)	(19,482)	(33,672)
Net cash used in investing activities		(3,870)	(12,982)	(19,664)	(34,781)
Cash provided by (used in) financing activities					
Net proceeds from (repayments of) short term loans	14	(874)	-	1,361	3,492
Net proceeds from issuance of promissory notes	10	9,455	-	14,748	-
Net proceeds from issuance of convertible debentures	9	-	-	17,695	-
Net proceeds from issuance of share capital	15(b)	36	132	2,814	27,907
Net proceeds from issuance of warrants		-	-	-	5,195
Net repayment of lease liabilities	11	(413)	-	(1,677)	-
Net repayment of promissory notes		-	-	-	(2,781)
Net cash provided by financing activities		8,204	132	34,941	33,813
Effect of foreign exchange on cash and cash equivalents		(65)	964	981	1,727
Increase (decrease) in cash		(1,295)	(13,978)	(1,837)	(7,872)
Cash and cash equivalents, beginning of period		1,599	17,530	2,141	11,424
Cash and cash equivalents, end of period		\$ 304	\$ 3,552	\$ 304	\$ 3,552

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

SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
(Expressed in thousands of Canadian dollars, except as otherwise noted)
For the three and nine months ended September 30, 2019 and September 30, 2018

1. REPORTING ENTITY

Sunniva Inc. (the “Company”) is a company incorporated and headquartered in Canada. The Company was incorporated on August 11, 2014 under the *Canada Business Corporations Act*. The Company’s common shares (“Common Shares”) are listed on the Canadian Securities Exchange (the “Exchange”) under the symbol “SNN” and on the OTCQB Market under the symbol “SNNVF”. The Company is a vertically integrated cannabis company focused on cultivation, production and distribution of a broad range of therapeutic solutions at scale across Canada and California. The address of the Company’s registered office is 1200-200 Burrard Street, Vancouver, British Columbia, Canada V7X 1T2. The Company operates in Canada and the United States.

The Company is subject to regulation under the federal and provincial laws of Canada and the federal and certain civic and state laws in the United States of America. The production, distribution, sale and use of cannabis and its derivatives is restricted by federal law in the United States despite being legalized for medical and recreational use in Canada and in individual states where the Company operates. The enforcement of these laws and its effect on the Company and its business, employees, directors and shareholders is uncertain and accordingly involve considerable risk.

2. BASIS OF PRESENTATION**A) GOING CONCERN**

The Company is considered to be in the development stage and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offerings in the cannabis industry and grow its revenues.

These condensed interim consolidated financial statements (“Interim Financial Statements”) have been prepared on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and as at September 30, 2019 has not generated sufficient revenue to fund operations or planned capital expenditures. The Company has an accumulated deficit of \$93,490 as at September 30, 2019 (December 31, 2018 - \$56,223) and incurred net losses of \$20,462 and \$38,888 and negative operational cash flow of \$5,419 and \$20,272 for the three and nine months ended September 30, 2019 (net losses of \$6,781 and \$17,961 and negative operational cash flow of \$2,988 and \$9,495 for the three and nine months ended September 30, 2018).

The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, to convert its debentures into shares or obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. Management plans to continue its efforts to secure external financing through the issuance of equity and debt to finance the operations and capital expenditures of the Company; however, there can be no certainty that such funds will be available on a timely basis and on terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. The Interim Financial Statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. See note 21 for details of subsequent events that are pertinent to the Company’s ability to continue as a going concern.

B) STATEMENT OF COMPLIANCE

The Interim Financial Statements have been prepared in accordance with International Accounting Standards 34, “*Interim Financial Reporting*” (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee.

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

SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
 (Expressed in thousands of Canadian dollars, except as otherwise noted)
 For the three and nine months ended September 30, 2019 and September 30, 2018

2. BASIS OF PRESENTATION (Continued)**B) STATEMENT OF COMPLIANCE (Continued)**

The Interim Financial Statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the annual consolidated financial statements. The accounting policies and critical estimates applied by the Company in the Interim Financial Statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2018.

The Interim Financial Statements were authorized for issuance by the Board of Directors on November 26, 2019.

C) BASIS OF MEASUREMENT

The Interim Financial Statements have been prepared on a historical cost basis except for certain financial instruments, assets held-for-sale, provisions and share based payments which were measured at fair value.

D) FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

The Interim Financial Statements are presented in Canadian dollars ("CAD"), which is the functional currency of the Company and its Canadian subsidiaries. The functional currency of the Company's US subsidiaries is the US dollar ("US").

E) BASIS OF CONSOLIDATION

The Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The list below sets out the principal subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated upon the preparation of the Interim Financial Statements:

Subsidiary	Functional Currency	Jurisdiction of Incorporation
Sunniva Medical Inc. ("SMI")	CAD	British Columbia, Canada
1167025 BC Ltd. ("116")	CAD	British Columbia, Canada
1111035 Canada Inc.	CAD	British Columbia, Canada
Natural Health Services Ltd. ("NHS")	CAD	Alberta, Canada
1964433 Alberta Ltd.	CAD	Alberta, Canada
CP Logistics, LLC ("CPL")	USD	North Carolina, USA
Full-Scale Distributors, LLC ("FSD")	USD	Florida, USA
LTYR Logistics, LLC ("LTYR")	USD	California, USA
Sunniva Full-Scale Distributors Corporation	USD	California, USA
Sun CA Holdings, Inc.	USD	California, USA
Sunny People, LLC	USD	California, USA
Sun Ramon, LLC	USD	California, USA
Coachella Distillation, LLC ("Coachella")	USD	California, USA
420 Distribution, LLC ("420")	USD	California, USA
A1 Perez, LLC ("Perez")	USD	Delaware, USA
Sun Holdings Management, LLC	USD	Delaware, USA

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SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
(Expressed in thousands of Canadian dollars, except as otherwise noted)
For the three and nine months ended September 30, 2019 and September 30, 2018

2. BASIS OF PRESENTATION (Continued)**F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of the Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Interim Financial Statements and the reported amounts of revenues and expenses during the reporting period.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and anticipated measures management intends to take. Actual results could differ from those estimates.

(i) Use of estimates and assumptions:

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates used in the preparation of the Interim Financial Statements include, but are not limited to the following:

(a) Estimated useful lives and amortization of intangible assets

Amortization of intangible assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(b) Warrants

The Company uses the Black-Scholes option pricing model to determine the fair value of its warrants. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of warrants, volatility of the Company's share price, risk free rate, and dividend yields. Changes in assumptions used to estimate fair value could result in materially different results. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

(c) Fair value of financial instruments

Individual fair values are attributed to the different components of a financing transaction, notably convertible debt, promissory notes and warrants. The Company uses judgment in selecting the methods used to make certain assumptions and in performing the fair value calculations in order to determine (i) the values attributed to each component of a transaction at the time of their issuance; (ii) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (iii) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding these instruments are disclosed in notes 9, 10 and 15(d).

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SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
(Expressed in thousands of Canadian dollars, except as otherwise noted)
For the three and nine months ended September 30, 2019 and September 30, 2018

2. BASIS OF PRESENTATION (Continued)**F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)****(d) Goodwill and intangible asset impairment**

For each of the cash generating units (“CGUs”) to which goodwill and intangible assets are allocated, the Company performs an annual test for goodwill impairment in the fourth quarter and also tests for impairment whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose all or a portion of a reporting unit. Determining whether an impairment has occurred requires valuation of the respective CGU, which we estimate using a discounted cash flow methodology. When available and as appropriate, we use comparative market multiples to corroborate discounted cash flow results. In applying this methodology, we rely on a number of factors, including actual operating results, future business plans, economic projections and market data.

(e) Convertible instruments

Convertible debentures are compound financial instruments which components are accounted for separately as financial liabilities or equity instruments. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires management judgment. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

(f) Share-based payments

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options. In estimating fair value, management is required to make certain assumptions and estimates such as the expected life of options, volatility of the Company’s future share price, risk free rate, future dividend yields and estimated forfeitures at the initial grant date. Changes in assumptions used to estimate fair value could result in materially different results.

(g) Inventory

The valuation of work-in-process and finished goods requires the estimate of conversion costs incurred, which become part of the carrying amount of the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(ii) Judgments:

Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the Interim Financial Statements include:

- the determination of functional currency;
- the determination of CGUs; and,
- the determination of the Company’s ability to continue as a going concern.

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

SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
(Expressed in thousands of Canadian dollars, except as otherwise noted)
For the three and nine months ended September 30, 2019 and September 30, 2018

2. BASIS OF PRESENTATION (Continued)

G) NEW ACCOUNTING POLICIES

(a) Assets held-for-sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the noncurrent asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the condensed interim consolidated statements of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the condensed interim consolidated statements of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the condensed interim consolidated statements of loss and comprehensive loss.

H) NEW STANDARDS AND INTERPRETATIONS ADOPTED

The following standards and amendments have been adopted by the Company for the first time for the financial year beginning on January 1, 2019:

(a) IFRS 16 – Leases

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 7.84%.

SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)
 (Expressed in thousands of Canadian dollars, except as otherwise noted)
 For the three and nine months ended September 30, 2019 and September 30, 2018

2. BASIS OF PRESENTATION (Continued)**H) NEW STANDARDS AND INTERPRETATIONS ADOPTED (Continued)**

(a) IFRS 16 – Leases (Continued)

	Amount
Lease commitments disclosed at December 31, 2018	\$ 213,813
Add: Financial lease liabilities recognized at December 31, 2018	11,877
Less: Remaining commitments for leases that have not yet commenced	(206,727)
Less: Short-term leases	(35)
Less: Discounted of lease liabilities using the incremental borrowing rate	(1,040)
Lease liabilities recognized at January 1, 2019	<u>\$ 17,888</u>

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position at December 31, 2018. The recognized right-of-use assets all relate to properties.

The change in account policy affected the following items in the statement of financial position on January 1, 2019:

	Increase / (Decrease)
Deposits on leases and properties	(270)
Property, plant and equipment	5,657
Accounts payable and accrued liabilities	(258)
Lease liabilities	6,011
Provisions	(366)

The following segments were affected by the change in policy:

	Segment assets	Segment liabilities
Cultivation & extraction	\$ 512	\$ 512
Patient Counselling	2,277	2,259
Corporate	2,598	2,598
Balance, December 31, 2018	<u>\$ 5,387</u>	<u>\$ 5,369</u>

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. ACCOUNTS RECEIVABLE

	September 30, 2019	December 31, 2018
Trade accounts receivable	\$ 3,888	\$ 2,955
Other receivables	438	926
	<u>\$ 4,326</u>	<u>\$ 3,881</u>

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

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4. INVENTORY

Inventory consists of cannabis, cannabis oils and merchandise held for sale. As at September 30, 2019, the Company held 202 kg of dry cannabis (46 kg of which was finished goods and 156 kg held for future extract production and packaging) and 167 L of cannabis oils. At December 31, 2018, the Company held 1,235 kg of dry cannabis (640 kg of which was finished goods and 595 kg held for future extract production and packaging) and 332 L of cannabis oils.

	September 30, 2019	December 31, 2018
Dry cannabis		
Held for packaging	\$ -	\$ 785
Held for extraction	97	284
Finished goods	9	-
	<u>106</u>	<u>1,069</u>
Cannabis oils		
Finished goods	2,474	1,568
Provision on finished goods	(732)	-
Work-in-process	182	475
	<u>1,924</u>	<u>2,043</u>
Non-cannabis products		
Product for resale (vaporizers and other)	147	239
Supplies and consumables	737	889
	<u>\$ 2,914</u>	<u>\$ 4,240</u>

The cost of inventory recognized as an expense and included in cost of sales for the three and nine months ended September 30, 2019 amounted to \$3,828 and \$15,191 (three and nine months ended September 30, 2018 – \$777 and \$3,367). As at September 30, 2019, the Company recorded an inventory reserve of \$732 (\$nil at December 31, 2018).

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Construction in progress	Right-of- use assets	Equipment	Total
Costs					
Balance, January 1, 2018	\$ -	\$ 1,438	\$ 14,250	\$ 767	\$ 16,455
Additions	8,345	35,951	-	4,061	48,357
Acquisition of LTYR	-	-	-	219	219
Disposals	-	-	-	(49)	(49)
Assets classified as held-for-sale	-	(5,605)	-	-	(5,605)
Impairment loss (note 7)	-	(1,310)	-	-	(1,310)
Transfers	-	(1,128)	-	882	(246)
Foreign exchange	15	567	1,004	513	2,099
Balance, December 31, 2018	<u>8,360</u>	<u>29,913</u>	<u>15,254</u>	<u>6,393</u>	<u>59,920</u>
Additions	10	19,421	9,672	216	29,319
Disposals & lease adjustments	-	-	(92)	(73)	(165)
Assets classified as held-for-sale	(7,957)	(11,463)	(2,328)	(853)	(22,601)
Impairment loss (note 7)	-	(2,243)	-	-	(2,243)
Foreign exchange	(12)	(584)	(499)	(157)	(1,252)
Balance, September 30, 2019	<u>\$ 401</u>	<u>\$ 35,044</u>	<u>\$ 22,007</u>	<u>\$ 5,526</u>	<u>\$ 62,978</u>

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5. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Construction in progress	Right-of- use assets	Equipment	Total
Accumulated Depreciation					
Balance, January 1, 2018	\$ -	\$ -	\$ -	\$ 115	\$ 115
Depreciation	-	-	-	722	722
Foreign exchange	-	-	-	27	27
Balance, December 31, 2018	-	-	-	864	864
Depreciation	-	-	1,321	1,109	2,430
Disposals & lease adjustments	-	-	(92)	(92)	(184)
Assets classified as held-for-sale	-	-	(547)	(420)	(967)
Foreign exchange	-	-	(4)	33	29
Balance, September 30, 2019	\$ -	\$ -	\$ 678	\$ 1,494	\$ 2,172
Net book value					
December 31, 2018	\$ 8,360	\$ 29,913	\$ 15,254	\$ 5,529	\$ 59,056
September 30, 2019	\$ 401	\$ 35,044	\$ 21,329	\$ 4,032	\$ 60,806

Refer to Note 7 for details on assets held-for-sale.

6. INTANGIBLE ASSETS AND GOODWILL

	Licenses	Software	Trademarks	Customer Relationships	Non-competes Agreement	Total
Costs:						
Balance, January 1, 2018	\$ 14,690	\$ 4,252	\$ 1,483	\$ 5,502	\$ 1,631	\$ 27,558
Acquisition of LTYR	-	-	-	1,434	-	1,434
Foreign exchange	379	-	-	146	143	668
Balance, December 31, 2018	15,069	4,252	1,483	7,082	1,774	29,660
Acquisitions (note 8)	135	-	-	-	-	135
Assets classified as held-for-sale (note 7)	-	(4,252)	(1,483)	(3,831)	-	(9,566)
Foreign exchange	(443)	-	-	(95)	(52)	(590)
Balance, September 30, 2019	\$ 14,761	\$ -	\$ -	\$ 3,156	\$ 1,722	\$ 19,639
Accumulated amortization:						
Balance, January 1, 2018	\$ -	\$ 650	\$ 136	\$ 1,104	\$ 520	\$ 2,410
Amortization	-	708	148	1,205	562	2,623
Foreign exchange	-	-	-	24	52	76
Balance, December 31, 2018	-	1,358	284	2,333	1,134	5,109
Amortization	-	532	111	1,118	432	2,193
Assets classified as held-for-sale (note 7)	-	(1,890)	(395)	(2,554)	-	(4,839)
Foreign exchange	-	-	-	(16)	(35)	(51)
Balance, September 30, 2019	\$ -	\$ -	\$ -	\$ 881	\$ 1,531	\$ 2,412

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6. INTANGIBLE ASSETS AND GOODWILL (Continued)

Net book value:	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
December 31, 2018	\$ 15,069	\$ 2,894	\$ 1,199	\$ 4,749	\$ 640	\$ 24,551
September 30, 2019	\$ 14,761	\$ -	\$ -	\$ 2,275	\$ 191	\$ 17,227

	Goodwill
Balance, January 1, 2018	\$ 18,505
Additions	4,168
Impairment	(653)
Foreign exchange	261
Balance, December 31, 2018	22,281
Impairment (note 7)	(10,528)
Assets classified as held-for-sale (note 7)	(3,340)
Foreign exchange	(245)
Balance, September 30, 2019	\$ 8,168

The Company performs goodwill impairment testing at least at each reporting period and whenever impairment indicators are identified. The Company has identified five CGUs for purposes of performing its impairment analysis. As at September 30, 2019, no impairment indicators were identified and management concluded that there was no goodwill impairment, other than the impairment of goodwill related to the reclassification of NHS as a discontinued operation.

7. ASSETS HELD-FOR-SALE**(a) Sale of SMI**

In December 2018, management committed to a plan to sell the materials purchased for construction of the Sunniva Canada campus in Okanagan Falls, British Columbia. Accordingly, \$5,605 of materials were presented as assets held-for-sale at December 31, 2018. \$3,363 of these materials were sold on January 24, 2019.

In June 2019, the Company entered into a share purchase agreement to sell SMI to CannaPharmaRx, Inc. in an all cash transaction for \$20,000 less certain outstanding liabilities (the "SMI Transaction"). An impairment loss of \$2,243 has been recognized in the nine months ended September 30, 2019 to reduce the carrying amount of SMI's net assets to the recoverable amount at September 30, 2019. The SMI Transaction was initially expected to close in August 2019 and the Company and CannaPharmaRx continue to work towards the closing of the SMI Transaction. The final terms are still being negotiated.

The assets and associated liabilities classified as held-for-sale consist of the following:

<i>Assets held-for-sale</i>	
Cash and restricted cash	\$ 342
Property, plant and equipment	21,784
Total assets held-for-sale	\$ 22,126
<i>Liabilities associated with assets held-for-sale</i>	
Accounts payable and accrued liabilities	\$ 2,548
Short term loans (note 14)	3,092
Total liabilities associated with assets held-for-sale	\$ 5,640

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7. ASSETS HELD-FOR-SALE (Continued)**(b) Sale of NHS – Discontinued Operations**

In September 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 \$9,000 payable by way of \$4,500 in cash and \$4,500 of security consideration through the issuance of 4,500,000 preferred shares of TCNC (the “NHS Transaction”). Subsequent to September 30, 2019, 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 \$9,000 is payable by way of \$250 in cash and \$8,750 of security through the issuance of 5,833,334 in shares of Cura-Can (parent company of TCNC) which are convertible into TCNC shares upon a future liquidity event of TCNC. The final terms are still being negotiated. The fair value of this consideration was determined to be \$8,108 at September 30, 2019 based on a discounted future cash flow model. The sale of NHS is reported as a discontinued operation in the Interim Financial Statements and the transaction is expected to close before the end of the year. Financial information relating to the discontinued operation for the three and nine months ended September 30, 2019 and 2018 is set out below.

The assets and associated liabilities classified as held-for-sale consist of the following:

Assets held-for-sale

Cash and cash equivalents	\$	148
Accounts receivable		824
Inventory		28
Prepaid expenses & deposits		22
Deposits on leases and properties		64
Property, plant and equipment		2,063
Intangibles assets		4,727
Goodwill		3,340
Total assets held-for-sale	\$	<u>11,216</u>

Liabilities associated with assets held-for-sale

Accounts payable and accrued liabilities	\$	1,272
Lease liabilities		1,774
Deferred incomes taxes		62
Total liabilities associated with assets held-for-sale	\$	<u>3,108</u>

(i) Details of the sale of NHS

	September 30, 2019
Cash consideration received	\$ 250
Fair value of remaining consideration	<u>7,858</u>
Total consideration	<u>\$ 8,108</u>
Carrying amount of net assets for sale at September 30, 2019	\$ 18,636
Impairment	<u>(10,528)</u>
Carrying amount of net assets for sale at September 30, 2019	<u>\$ 8,108</u>

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9. CONVERTIBLE DEBENTURE FINANCING (Continued)

In November and December 2017, the Company completed a private placement of Convertible Debentures in the aggregate principal amount of \$12,135 (the “2017 Convertible Debenture Offering”). The Convertible Debentures bear interest at 8% per annum, payable annually and mature on December 31, 2020. The Convertible Debentures are convertible into Common Shares at a price of \$4.60 per Common Share at the holder’s option. The equity portion was determined to be \$2,632, less a deferred tax recovery of \$788 for a net balance of \$1,844. On closing, the Company paid finders’ fees of \$173, of which \$38 has been allocated to the equity portion for net equity balance of \$1,806.

The liability component of the Convertible Debentures was valued using Company-specific interest rates assuming no conversion feature exists. The effective interest rate was determined to be 17.5% for the 2019 Convertible Debenture Offering (17.5% for the 2017 Convertible Debenture Offering). The debt component is accreted to its fair value over the term to maturity as a non-cash interest charge and the equity component is presented as a separate component of shareholders’ equity.

	Amount
Balance, January 1, 2018	\$ 9,495
Conversion of debentures	(1,877)
Accretion	701
Balance, December 31, 2018	<u>8,319</u>
Issued	18,330
Equity portion	(2,144)
Financing costs	(635)
Conversion of debentures	(2,397)
Accretion	1,215
Balance, September 30, 2019	<u>\$ 22,688</u>

During the three and nine months ended September 30, 2019, \$998 and \$2,666 of Convertible Debentures were converted into a combined 582,532 Common Shares. This resulted in a reduction in Convertible Debenture financing of \$876 and \$2,315, a share capital transfer of \$122 and \$351 from the equity portion of Convertible Debentures and a decrease in accrued interest of \$43 and \$81, respectively. During the three and nine months ended September 30, 2018, \$37 and \$1,449 of Convertible Debentures were converted into 8,518 and 325,563 Common Shares. This resulted in a reduction in Convertible Debenture financing of \$29 and \$1,134, a share capital transfer of \$8 and \$315 from the equity portion of Convertible Debentures and a decrease in accrued interest of \$2 and \$49, respectively.

10. UNSECURED PROMISSORY NOTES

On August 28, 2019, the Company closed a non-brokered private placement of 1,500,000 units (“Subsequent August Units”) of the Company for gross proceeds of \$2,000 (US\$1,500) (the “Subsequent August Unit Offering”). Each Subsequent August Unit consists of a principal amount of unsecured promissory notes of the Company bearing interest at a rate of 10% per annum (“Promissory Notes”) and 1.11 Common Share purchase warrants of the Company (“Subsequent August Warrants”) at an exercise price of \$1.20 (US\$0.90) per Subsequent August Warrant. On October 15, 2019, the Company closed a second tranche of the Subsequent August Unit Offering of 6,000,000 Subsequent August Units for gross proceeds of \$8,000 (US\$6,000) under the same terms. The Promissory Notes mature 18 months from the respective closing dates.

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10. UNSECURED PROMISSORY NOTES (Continued)

On August 1, 2019, the Company closed a non-brokered private placement of 5,772,880 units (“August Units”) of the Company for gross proceeds of \$5,773 (the “August Unit Offering”). On August 29, 2019, the Company closed a second tranche of the August Unit Offering of 1,460,000 August Units for gross proceeds of approximately \$1,460. On September 12, 2019, the Company closed a third tranche of the August Unit Offering of 325,000 August Units for gross proceeds of \$325. In aggregate, a total of 7,580,000 August Units were issued, with each August Unit consisting of a principal amount of Promissory Notes bearing interest at a rate of 10% per annum and 0.40 Common Share purchase warrants of the Company (“August Warrants”) at an exercise price of \$2.50 per August Warrant. The Promissory Notes mature on 6 months from the respective closing dates.

On April 15, 2019, the Company closed a non-brokered private placement of 4,300,000 units of the Company (“April Units”) for gross proceeds of \$4,300 (the “April Unit Offering”). On April 24, 2019, the Company closed a second tranche of the April Unit Offering of 1,210,000 April Units for gross proceeds of \$1,200. In aggregate, a total of 5,510,000 April Units were issued, with each April Unit consisting of a principal amount of Promissory Notes of the Company bearing interest at a rate of 10% per annum and 0.1897 Common Share purchase warrants of the Company (“April Warrants”) at an exercise price of \$5.27 per April Warrant. The Promissory Notes mature on the earlier of (i) two business days following receipt by the Company of proceeds from the sale of any or all of the Company’s Canadian assets following the respective closing dates, which, in the aggregate are equal to or greater than the proceeds of the April Unit Offering; and (ii) 6 months from the respective closing dates.

The Promissory Note liability component of the April Units, August Units and Subsequent August Units were valued using Company-specific interest rates assuming no warrants were issued. The effective interest rate was determined to be 20% for the Promissory Notes issued. The Promissory Notes are accreted to fair value over the term to maturity as a non-cash interest charge and the equity components of the April Units and August Units are presented under warrants in shareholders' equity. The Subsequent August Warrants issued with the Subsequent August Units were classified as a liability as their exercise price is in US dollars, which is not the Company’s functional currency. Each warrant is exercisable into one Common Share upon payment of the exercise price. The warrants presented in shareholders’ equity were attributed a value of \$477 and share issuance costs of \$296 and \$12 were allocated to the Promissory Notes and warrants, respectively. The warrants classified as a liability were attributed a value of US\$169 and are currently valued at the closing rate, or \$224.

	Amount
Balance, December 31, 2018	\$ -
Issued	15,060
Equity portion	(477)
Warrant liability	(224)
Financing costs	(312)
Accretion	272
Foreign exchange	(3)
Balance, September 30, 2019	<u>\$ 14,316</u>

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11. LEASE LIABILITIES

The Company is committed under a lease agreement with respect to office premises located in Calgary, Alberta and Carlsbad, California expiring on October 31, 2027 and July 31, 2024, respectively, and lease agreements with respect to NHS clinics located across Canada expiring between September 30, 2019 and December 31, 2022. The Company leases production facilities in California with four leases expiring on September 30, 2021, December 31, 2021 and two expiring on July 31, 2024. The following is a maturity analysis of the undiscounted cash flows associated with the lease liabilities:

	Amount
Less than one year	\$ 1,767
One to five years	5,326
More than five years	2,363
Total undiscounted lease payments	<u>\$ 9,456</u>

The Company also leases production facilities in Cathedral City, California commencing in early 2020. This facility currently has a lease liability of \$11,805, but the undiscounted lease payments are included under commitments in note 20 as the lease has not yet commenced.

	Amount
Balance, December 31, 2018	\$ 11,877
Adoption of IFRS 16	6,011
New leases	4,041
Transfer to liabilities associated with assets held-for-sale (note 7b)	(1,774)
Lease payments	(1,677)
Interest	419
Foreign exchange	(415)
Balance, September 30, 2019	<u>\$ 18,482</u>

12. DEFERRED REVENUE

Merchandise sales require a prepaid deposit before the product is shipped and the revenue is deferred until the product is delivered to the customer. There are \$190 of customer deposits at September 30, 2019 (December 31, 2018 - \$515).

13. PROVISIONS

	Onerous Lease	Contingent Consideration	Total
Balance, January 1, 2018	\$ 143	\$ 57	\$ 200
Amortization of provision	(404)	-	(404)
Increase in provision	620	-	620
Foreign exchange	25	-	25
Balance, December 31, 2018	<u>384</u>	<u>57</u>	<u>441</u>
Transfer of provision	(384)	-	(384)
Balance, September 30, 2019	<u>\$ -</u>	<u>\$ 57</u>	<u>\$ 57</u>

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13. PROVISIONS (Continued)

In January 2016, the Company leased a facility in Goleta, California for a proposed manufacturing facility. The Company later decided not to use the facility for that purpose and has engaged an agent to sub-lease or re-lease the facility. This lease was thus classified as onerous and the Company used a discounted cash flow method to determine the provision for this onerous lease, calculated on a pre-tax basis utilizing a discount rate of 18%. The balance of \$384 was transferred and offset against the right-of-use asset as part of the adoption of IFRS 16.

The contingent consideration is related to the acquisition of FSD and has an end date of December 31, 2019.

14. SHORT TERM LOANS

In January 2019, the Company entered into a \$2,249 (US\$1,711) promissory note to finance materials purchased for the greenhouse facility in Cathedral City, California. The promissory note has an interest rate of 10% per annum for the period of January 11, 2019 to June 11, 2019 and 25% per annum for the period of June 12, 2019 until settlement. In June 2019, the Company entered into a \$1,172 (US\$896) promissory note to finance materials purchased for the greenhouse facility in Cathedral City, California. The promissory note has an interest rate of 12% per annum. The Company has the option to repay the principal at any time without additional fees. The Company has repaid \$1,660 (US\$1,254) as at September 30, 2019. Subsequent to September 30, 2019, the Company received a notice of default on this promissory note. Refer to notes 20 and 21.

In June 2018, the Company, through its subsidiary 116, entered into a \$3,492 mortgage to finance the purchase of land for the greenhouse facility in Okanagan Falls, British Columbia. The mortgage is repayable on October 31, 2019 and has an interest rate of 5% per annum. This balance has been reclassified to Liabilities associated with assets held-for-sale (note 7). The Company has repaid \$400 as at September 30, 2019 but is currently in default on the remaining balance. The Company has been in communication with the lender and does not anticipate any remedial action to be taken prior to closing the SMI Transaction.

	<u>Amount</u>
Balance, December 31, 2018	\$ 3,492
Issued	3,421
Repayment	(2,060)
Reclass to liabilities associated with assets held for sale (note 7)	(3,092)
Interest expense	252
Foreign exchange	31
Balance, September 30, 2019	<u>\$ 2,044</u>

15. SHARE CAPITAL**(a) Authorized**

The Company has authorized an unlimited number of Common Shares without par value.

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15. SHARE CAPITAL (Continued)**(b) Issued and Outstanding – Common Shares**

	Shares	Price	Total
Balance, January 1, 2018	26,636,073	-	\$ 53,502
Proceeds on conversion of financing warrants	69,400	\$3.16 (US\$2.55)	219
Conversion of financing warrants	-	-	277
Conversion of the FSD note	500,000	\$3.19 (US\$2.55)	5,470
Bought deal public offering - March	2,850,900	\$9.75	27,796
Warrants issued in bought deal public offering - March	-	-	(4,809)
Bought deal public offering – October	4,370,000	\$4.60	23,030
Warrants issued in bought deal public offering - October	-	-	(4,145)
Proceeds on conversion of warrants issued in sale and leaseback	1,091,259	\$4.60	5,028
Conversion of warrants issued in sale and leaseback	-	-	2,048
Deferred tax transfer on conversion of warrants	-	-	897
Acquisition of LTYR	1,436,949	\$2.75	3,692
Proceeds on conversion of finders' warrants	346,612	\$3.40	1,179
Proceeds on conversion of finders' warrants	3,158	\$6.75	21
Conversion of finders' warrants	-	-	440
Conversion of convertible debentures	548,179	\$4.60	2,522
Proceeds on conversion of stock options	231,250	\$3.40	786
Conversion of stock options	-	-	490
Share issuance costs	-	-	(5,092)
Balance, December 31, 2018	38,083,780	-	\$113,351
Proceeds on conversion of financing warrants	430,600	\$3.37 (US\$2.55)	1,450
Conversion of financing warrants	-	-	822
Conversion of convertible debentures	582,532	\$4.60	2,680
Interest on conversion of convertible debentures	-	-	66
Settlement of interest on convertible debentures	84,625	\$3.00	254
Proceeds on conversion of stock options	25,000	\$3.40	85
Conversion of stock options	-	-	65
Expiry of finders' warrants	-	-	313
Share issuance costs	-	-	(168)
Balance, September 30, 2019	39,206,537	-	\$118,918

(c) Finders' warrants

During the year ended December 31, 2017, the Company issued finders' warrants as compensation to persons involved in raising equity capital. Each finders' warrant is exercisable into one Common Share upon payment of the exercise price.

Issue Date	Issued	Exercised	Expired	Outstanding	Exercise Price	Expiry Date
December 20, 2016	38,941	(38,941)	-	-	\$3.40	June 30, 2018
December 29, 2016	289,298	(289,298)	-	-	\$3.40	June 30, 2018
February 7, 2017	14,525	(14,525)	-	-	\$3.40	February 7, 2018
February 7, 2017	3,850	(3,850)	-	-	\$3.40	February 8, 2018
June 22, 2017	100,000	-	(100,000)	-	\$6.75	June 22, 2019
October 28, 2017	59,596	(3,158)	(56,438)	-	\$6.75	June 27, 2019
	506,210	(349,772)	(156,438)	-		

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15. SHARE CAPITAL (Continued)**(c) Finders' warrants (Continued)**

For the three and nine months ended September 30, 2019, no warrants were exercised. For the three and nine months ended September 30, 2018, nil and 349,772 warrants were exercised for proceeds of \$nil and \$1,200, which is included in share capital along with a transfer of \$nil and \$439 from contributed surplus. The remaining finders' warrants expired in September 2019, which resulted in a transfer of \$313 from share issuance costs to contributed surplus.

(d) Financing warrants

During 2016, the Company issued the following warrants in conjunction with interim financing arrangements. These warrants were classified as a liability as their exercise price is in US dollars, which is not the Company's functional currency. Each warrant is exercisable into one Common Share upon payment of the exercise price.

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
December 29, 2016	100,000	(100,000)	-	US \$2.55	April 12, 2019
December 29, 2016	100,000	(100,000)	-	US \$2.55	May 1, 2019
December 29, 2016	300,000	(300,000)	-	US \$2.55	July 19, 2019
	500,000	(500,000)	-		

During the three and nine months ended September 30, 2019, nil and 430,600 of the financing warrants had been exercised for proceeds of \$nil and \$1,450, which is included in share capital along with \$nil and \$822 transferred from the warrant liability. During the three and nine months ended September 30, 2018, nil and 69,400 of the financing warrants had been exercised for proceeds of \$nil and \$219, which is included in share capital along with \$nil and \$277 transferred from the warrant liability.

As at September 30, 2019, all financing warrants have been exercised.

	Amount
Balance, January 1, 2018	\$ 2,098
Valuation adjustment	(1,546)
Conversion into Common Shares	(277)
Foreign exchange adjustment	117
Balance, December 31, 2018	392
Valuation adjustment	455
Conversion into Common Shares	(822)
Foreign exchange adjustment	(25)
Balance, September 30, 2019	\$ -

(e) Warrants issued in sale and leaseback

On October 23, 2017, the Company issued the following warrants in conjunction with the sale and lease back of the land related to the production facility in Cathedral City, California. Each warrant is exercisable into one Common Share upon payment of the exercise price. These warrants were exercised on April 12, 2018.

Issue Date	Number	Exercise Price	Expiry Date
October 23, 2017	1,091,259	\$4.60	April 23, 2018

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

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15. SHARE CAPITAL (Continued)**(e) Warrants issued in sale and leaseback (Continued)**

The grant date fair value of the warrants was determined to be \$2.39 per warrant for a total of \$2,804 and this cost has been included in the Right-of-use asset (note 5). The fair value of these warrants was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.55%;
- expected life of 0.5 years;
- expected volatility of 76%; and
- expected dividends of \$Nil.

Option pricing models require the input of highly subjective assumptions including the expected price volatility.

	Amount
Balance, January 1, 2018	\$ 2,048
Conversion into Common Shares	(2,048)
Balance, September 30, 2019 and December 31, 2018	\$ -

(f) Warrants issued in bought deal public offerings*(i) March bought deal*

On March 27, 2018, the Company completed a bought deal public offering for aggregate gross proceeds of \$27,797. A total of 2,850,900 units of the Company ("March Units") and 50,000 March Warrants (as defined below) were sold at a price of \$9.75 per March Unit and \$0.02 per March Warrant. Each March Unit consisted of one Common Share and one-half of one Common Share purchase warrant (each whole warrant, a "March Warrant"). Each March Warrant entitles the holder thereof to acquire one Common Share at an exercise price per Common Share of \$12.50 for a period of 24 months from the date of issuance.

The grant date fair value of the March Warrants was determined to be \$3.37 per March Warrant for a total of \$4,975 and the amount is included under warrants in equity. In addition, the Company issued an aggregate of 171,054 compensation options to the underwriters at a fair value of \$700. The fair values of these March Warrants and options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.92%
- expected life of 2 years;
- expected volatility of 76%; and
- expected dividends of \$Nil.

Option pricing models require the input of highly subjective assumptions including the expected price volatility.

Total cash share issuance costs amounted to \$2,007 which consisted of underwriters' commission of \$1,668, underwriters' expenses of \$15, and legal fees of \$324. Also included in share issuance costs are the compensation warrants valued at \$700. 1,425,450 March Warrants are outstanding as at September 30, 2019 with a weighted average remaining contractual life of 0.5 years.

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15. SHARE CAPITAL (Continued)**(f) Warrants issued in bought deal public offerings (Continued)***(ii) October bought deal*

On October 12, 2018, the Company completed a bought deal public offering for aggregate gross proceeds of \$23,030. A total of 4,370,000 units of the Company (“October Units”) were sold at a price of \$5.27 per October Unit. Each October Unit consisted of one Common Share and one-half of one Common Share purchase warrant (an “October Warrant”). Each October Warrant entitles the holder thereof to acquire one Common Share at an exercise price per Common Share of \$6.85 for a period of 24 months from the date of issuance.

The grant date fair value of the October Warrants was determined to be \$1.90 per October Warrant for a total of \$4,145 and the amount is included under warrants in equity. In addition, the Company issued an aggregate of 262,200 compensation options to the underwriters at a fair value of \$598. The fair values of these October Warrants and options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 1.37%
- expected life of 2 years;
- expected volatility of 81%;
- expected forfeiture rate of 9.36%; and
- expected dividends of \$Nil.

Option pricing models require the input of highly subjective assumptions including the expected price volatility.

Total cash share issuance costs amounted to \$1,686 which consisted of underwriters’ commission of \$1,382, underwriters’ expenses of \$15, and legal fees of \$289. Also included in share issuance costs are the compensation warrants valued at \$598. 2,185,000 October Warrants are outstanding as at September 30, 2019 with a weighted average remaining contractual life of 1.1 years.

(g) Warrants issued in non-brokered private placements

In connection with the non-brokered private placements of units (note 10), the Company issued the following warrants:

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
April 15, 2019	815,939	-	815,939	\$5.27	April 15, 2021
April 24, 2019	229,602	-	229,602	\$5.27	April 24, 2021
August 1, 2019	2,311,470	-	2,311,470	\$2.50	August 1, 2021
August 27, 2019	1,666,668	-	1,666,668	US\$0.90	August 27, 2021
August 29, 2019	585,024	-	585,024	\$2.50	August 29, 2021
September 12, 2019	130,000	-	130,000	\$2.50	September 12, 2021
	5,738,703	-	5,738,703		

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15. SHARE CAPITAL (Continued)**(h) Share-based payments**

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the requirements of the Exchange, grant to directors, officers, employees and consultants, non-transferable options to purchase Common Shares to a maximum number of Common Shares which may be issued pursuant to options granted under the plan at any point in time equal to 15% of the total issued and outstanding Common Shares on a fully-diluted basis, where the issued and outstanding number of Common Shares on a fully-diluted basis is determined without giving effect to outstanding and unexercised options. Options expire ten years from the grant date. One-sixteenth of the options issued vest every three months from the date of grant. There are 2,845,389 options that have not vested as at September 30, 2019. A summary of the status of the options outstanding is as follows:

	Stock options	Weighted Average Exercise Price
Balance, January 1, 2018	3,310,625	\$ 4.36
Granted	2,349,000	5.55
Exercised	(231,250)	(3.40)
Forfeited	(324,250)	(4.80)
Expired	(21,875)	(6.75)
Balance, December 31, 2018	5,082,250	\$ 4.93
Granted	990,000	3.12
Exercised	(25,000)	(3.40)
Forfeited	(947,968)	(5.17)
Expired	(512,376)	(5.14)
Balance September 30, 2019	4,586,906	\$ 4.47

The following table summarizes the stock options that remain outstanding as at September 30, 2019:

Exercise Price	Options Outstanding	Expiry Date	Remaining Contract Life	Options Exercisable
\$3.40	1,450,000	April 2027	7.54	815,625
\$3.40	100,000	June 2027	7.71	56,250
\$6.75	50,000	July 2027	7.76	25,000
\$6.75	50,000	July 2027	7.84	25,000
\$6.75	50,000	August 2027	7.91	25,000
\$6.75	100,000	October 2027	8.07	43,750
\$6.75	75,000	December 2027	8.19	32,813
\$6.75	400,000	January 2028	8.42	150,000
\$8.11	250,000	June 2028	8.69	250,000
\$7.81	291,781	June 2028	8.75	91,182
\$6.73	100,000	September 2028	8.94	25,000
\$3.30	780,125	December 2028	9.19	146,273
\$3.12	890,000	June 2029	9.71	55,625
	<u>4,586,906</u>		<u>8.52</u>	<u>1,741,518</u>

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15. SHARE CAPITAL (Continued)**(h) Share-based payments (Continued)**

The Company recognized a share-based compensation expense of \$293 and \$1,821 for the three and nine months ended September 30, 2019 (\$2,303 and \$6,408 for the three and nine months ended September 30, 2018). The total fair value of the options granted during the three and nine months ended September 30, 2019 was \$nil and \$1,273 (\$858 and \$7,787 for the three and nine months ended September 30, 2018).

The fair value of these options was determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 1.3%;
- expected life of 4.8 years;
- expected forfeiture rate of 17.1%
- expected volatility of 75.0%; and
- expected dividends of \$Nil.

The expected volatility was based on the historical volatility of the Company. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

16. CAPITAL RISK MANAGEMENT

The Company's objectives and policies for managing capital are to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and to safeguard the Company's ability to support the Company's normal operating requirements on an ongoing basis.

The capital of the Company consists of shareholders' equity, convertible debentures and secured promissory notes.

The Company manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. To manage the Company's capital requirements, the Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's officers are responsible for managing the Company's capital and do so through meetings and review of financial information. The Board of Directors of the Company is responsible for overseeing this process. As at September 30, 2019, the Company is not subject to externally imposed capital requirements. There were no changes to the management of capital from the prior year.

17. FINANCIAL INSTRUMENTS AND RISK EXPOSURES

The Company's financial assets include cash and cash equivalents and accounts receivable. The Company's financial liabilities include accounts payable and accrued liabilities, short term loans, convertible debenture financing, unsecured promissory notes payable, contingent consideration and warrant liability. All financial instruments are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and are subsequently carried at fair value or amortized cost. The carrying values of these financial instruments approximate their fair values based on the nature of these instruments as at September 30, 2019 and December 31, 2018.

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17. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

Cash and cash equivalents are classified as financial assets at fair value through profit or loss and measured at fair value. Accounts receivables are classified as financial assets measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, short term loans, unsecured promissory notes and convertible debenture financing are classified as financial liabilities measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The contingent consideration and warrant liability are classified as financial liabilities at fair value through profit and loss.

The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to their immediate or short-term maturity, or their ability for liquidation at comparable amounts.

(a) Fair value measurements:

Fair value measurements of financial assets and liabilities recognized in the statements of financial position. Financial assets and liabilities are categorized using a fair value hierarchy as follows:

- Level 1 – unadjusted 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. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized in the statements of financial position at fair value are categorized as follows:

Contingent liability	Level 3
Warrant liability	Level 3

There were no transfers between the levels during the periods ended September 30, 2019 nor December 31, 2018.

As at September 30, 2019 and December 31, 2018, the fair values of all financial instruments carried at amortized cost approximated their carrying value.

The Company's liability for the FSD contingent consideration was measured at fair value based on unobservable inputs, and was considered a level 3 financial instrument. The fair value of the liability determined by this analysis was primarily driven by the Company's expectations of FSD achieving the milestones. The expected milestones were assessed probabilities by management which was then discounted to present value in order to derive a fair value of the contingent consideration. The primary inputs of the calculation were the probabilities of achieving the milestones and a discount rate.

The level 3 financial instruments increased the net loss of the Company by \$nil and \$455 for the three and nine months ended September 30, 2019 (decreased the net loss by \$1,078 and \$750 for the three and nine months ended September 30, 2018).

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17. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)**(b) Credit risk:**

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is moderately exposed to credit risk from its cash and cash equivalents and trade and other receivables.

The risk exposure is limited to their carrying amounts at the statement of financial position date. The risk for cash and cash equivalents is mitigated by holding these instruments with highly rated Canadian financial institutions.

Trade accounts receivable primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST"). The Company mitigates this risk by managing and monitoring the underlying business relationships. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. A credit loss of \$1,338 and \$4,180 was recognized for the three and nine months ended September 30, 2019 (\$nil for the three and nine months ended September 30, 2018).

As at September 30, 2019, the Company's aging of receivables was approximately as follows:

	At September 30, 2019	At December 31, 2018
0 – 30 days	\$ 1,005	\$ 2,217
31 – 60 days	680	566
61 – 90 days	27	93
91 days and over	6,794	1,005
Credit loss	(4,180)	-
	<u>\$ 4,326</u>	<u>\$ 3,881</u>

(c) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's liquidity is adequate for the settlement of short-term financial obligations. The Company needs to obtain additional funding or restructure its other financial liabilities to meet longer term financial obligations. In addition to the commitments (note 20), the Company has the following contractual obligations:

As at September 30, 2019	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	\$ 9,464	\$ 9,464	\$ -	\$ -
Short term loans	2,044	2,044	-	-
Unsecured promissory notes	14,316	12,541	1,775	-
Warrant liability	224	224	-	-
Lease liabilities	18,482	1,184	9,687	7,611
Convertible debenture financing	22,688	-	22,688	-
	<u>\$ 67,218</u>	<u>\$ 25,457</u>	<u>\$ 34,150</u>	<u>\$ 7,611</u>

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

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17. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(c) Liquidity risk (Continued):

As at December 31, 2018	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	\$ 14,320	\$ 14,320	\$ -	\$ -
Secured promissory notes	-	-	-	-
Short term loans	3,492	3,492	-	-
Warrant liability	392	392	-	-
Convertible debenture financing	8,319	-	8,319	-
	\$ 26,523	\$ 18,204	\$ 8,319	\$ -

(d) Currency risk:

The operating results and financial position of the Company are reported in Canadian dollars. As the Company operates in an international environment, some of the Company's financial instruments and transactions are denominated in currencies other than the Canadian dollar. The results of the Company's operations are subject to currency transaction and translation risks.

The Company holds cash and has liabilities (primarily accounts payable and accrued liabilities) in currencies other than the Canadian dollar, primarily the United States dollar.

The Company manages currency risk by holding cash in foreign currencies to support forecasted foreign currency denominated liabilities and does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company has determined that an effect of a 10% increase or decrease US dollars against the Canadian dollar on financial assets and liabilities, as at September 30, 2019, including cash, accounts receivable and accounts payable, etc., would result in an increase or decrease of approximately \$76 (September 30, 2018 - \$335) to the net loss and comprehensive loss for the three and nine months ended September 30, 2019.

(e) 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. Cash and cash equivalents bear interest at market rates. The Company's financial debt have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(f) Regulatory risk:

The Company operates in an industry that is in its infancy when it comes to government regulations. Any evolution, adoption, or change of rules and regulations could have significant impact on the Company's operations.

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18. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its wholly-owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

(a) Compensation of key management personnel

	Three months ended September 30, 2019	Three months ended September 30, 2018
Salaries and consulting fees	\$ 560	\$ 743
Share-based payments	508	1,401
	<u>\$ 1,068</u>	<u>\$ 2,144</u>
	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Salaries and consulting fees	\$ 1,981	\$ 2,130
Share-based payments	1,535	3,546
	<u>\$ 3,516</u>	<u>\$ 5,676</u>
Amounts due to related parties:	September 30, 2019	December 31, 2018
Salaries and consulting fees	<u>\$ 524</u>	<u>\$ 135</u>

(b) Lease guarantee:

The lease on the Company's facility in Goleta, California is personally guaranteed by the Company's Chief Executive Officer.

(c) Other related party

During the three and nine months ended September 30, 2019, the Company paid \$111 and \$333 to a legal firm which is associated with a director (\$226 and \$587 for the three and nine months ended September 30, 2018). As at September 30, 2019, the Company owes the legal firm \$162 (December 31, 2018 - \$9).

During the three and nine months ended September 30, 2019, the Company paid \$nil and \$10 to a consulting firm which is associated with a director (\$161 for the three and nine months ended September 30, 2018). As at September 30, 2019, the Company owes the consulting firm \$10 (December 31, 2018 - \$55).

In October 2017, the Company entered into an agreement with a property development company, which is associated with a former director, to construct and subsequently lease the greenhouse facility in Cathedral City, California (the "Sunniva California Campus"). As part of this arrangement, a company in which the former director has a significant interest was issued 1,091,259 warrants convertible at \$4.60 per Common Share (note 15(e)). These warrants were exercised on April 12, 2018. The Company has an outstanding promissory note of \$2,044 (US\$1,543) with this related party for the Sunniva California Campus (note 14).

The Company has an agreement with entities owned or controlled by a former employee of the Company, whereby the Company funded the expenses associated with a licensed cannabis cultivation facility in Oakland, California owned by these entities in exchange for access to cannabis genetic and propagating materials produced at that facility. The cannabis genetic and propagating materials were used at the Sunniva California Campus. During the three and nine months ended September 30, 2019, the Company paid \$nil towards this agreement (\$297 and \$519 for the three and nine months ended September 30, 2018). This agreement terminated in April 2019.

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

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19. SEGMENTED INFORMATION

The Company has four operating segments, referred to as Patient Counselling, Merchandising, Cultivation & Extraction and Corporate. As at September 30, 2019, the Patient Counselling segment is a discontinued operation and its operating results are no longer included below. The operating segments are reportable segments in accordance with IFRS 8 Operating Segments.

Three months ended September 30, 2019	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	\$ 2,736	\$ 2,625	\$ -	\$ 5,361
Gross margin	386	1,187	-	1,573
Income (loss) from operations	14	(2,818)	(4,335)	(7,139)
Net income (loss) from continuing operations	\$ 15	\$ (2,929)	\$ (6,286)	\$ (9,200)

Three months ended September 30, 2018	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	\$ 1,093	\$ 89	\$ -	\$ 1,182
Gross margin	194	20	-	214
Income (loss) from operations	(131)	(1,341)	(5,411)	(6,883)
Net (loss) from continuing operations	\$ (132)	\$ (1,361)	\$ (5,550)	\$ (7,043)

Nine months ended September 30, 2019	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	\$ 7,099	\$ 14,129	\$ -	\$ 21,228
Gross margin	1,083	4,203	-	5,286
Income (loss) from operations	(516)	(5,518)	(13,833)	(19,867)
Net (loss) from continuing operations	\$ (518)	\$ (5,748)	\$ (19,711)	\$ (25,977)

Nine months ended September 30, 2018	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	\$ 4,891	\$ 89	\$ -	\$ 4,980
Gross margin	789	20	-	809
Income (loss) from operations	69	(1,525)	(15,609)	(17,065)
Net income (loss) from continuing operations	\$ 68	\$ (1,545)	\$ (16,070)	\$ (17,547)

As at September 30, 2019	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Total assets	\$ 22,397	\$ 2,281	\$ 82,611	\$ 22,597	\$ 129,886
Total liabilities	\$ 3,108	\$ 829	\$ 18,466	\$ 53,810	\$ 76,213

As at December 31, 2018					
Total assets	\$ 22,903	\$ 2,820	\$ 62,804	\$ 36,793	\$ 125,320
Total liabilities	\$ 1,959	\$ 1,524	\$ 17,576	\$ 19,248	\$ 40,307

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

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20. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Company leases production facilities in Cathedral City, California commencing in early 2020. The term is 15 years with three options to extend by 5 years each.

The Company's minimum payments required under these leases are as follows:

	<u>Total</u>
2020	7,155
2021	12,315
2022	12,315
2023	12,315
Thereafter	156,581
	<u>\$ 200,681</u>

(b) Legal proceedings

On March 29, 2019, the Company, along with NHS, was named in a class action lawsuit filed in the Ontario Supreme Court of Justice in connection with a privacy breach of the Electronic Medical Record system used by NHS. Another action was filed on or about March 2019 as a proceeding in the Court of Queen's Bench of Alberta, naming the Company and NHS as defendants in connection with the breach. On August 9, 2019, a further parallel class action claim was filed against NHS in the Court of Queen's Bench in Alberta. The litigation process has commenced, and the Company and NHS will defend their position and continue to work with privacy and law enforcement authorities to investigate and respond to this breach. No amount has been recorded in the Interim Financial Statements since an amount cannot be reliably measured at this point.

On November 25, 2019, the Company received a 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 for the Sunniva California Campus. 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. No amount has been recorded in the Interim Financial Statements since an amount cannot be reliably measured at this point.

21. SUBSEQUENT EVENTS

The Company evaluates events or transactions that occur after the balance sheet date through to the date which the financial statements are issued, for potential recognition or disclosure in the Interim Financial Statements in accordance with IAS 10, *Events After the Reporting Period*.

- (a) On October 15, 2019, the Company closed a second tranche of the Subsequent August Unit Offering of 6.0 Subsequent August Units for gross proceeds of \$8,000 (US\$6,000). Each Subsequent August Unit consists of a principal amount of Promissory Notes bearing interest at a rate of 10% per annum and 1.11 Subsequent August Warrants at an exercise price of \$1.20 (US\$0.90) per Subsequent August Warrant. The Promissory Notes mature 18 months from the respective closing dates.

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21. SUBSEQUENT EVENTS (Continued)

- (b) 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 of US\$2,044 (note 14) and failure to meet certain conditions of the build to suit lease for the Sunniva California Campus (note 18 (c)). In addition, the Company received a notice of default from a promissory note holder (US\$6,000) 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.

- (c) As of November 26, 2019, 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 \$9,000 is payable by way of \$250 in cash and \$8,750 of security consideration of 5,833,334 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 \$4,500 in cash and \$4,500 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.