



**SUNNIVA INC.**

Condensed Interim Consolidated Financial Statements  
(Unaudited)

For the three and nine months ended September 30, 2018 and 2017  
(In Canadian Dollars)

**SUNNIVA INC.**

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

As at September 30, 2018 and December 31, 2017

*In thousands of Canadian dollars, except share amounts*

|   | Notes    | September 30,<br>2018 | December 31,<br>2017 |
|---|----------|-----------------------|----------------------|
| <b>ASSETS</b>                                     |          |                       |                      |
| <b>Current assets</b>                             |          |                       |                      |
| Cash and cash equivalents                         |          | \$ 3,552              | \$ 11,424            |
| Restricted cash                                   |          | 337                   | -                    |
| Accounts receivable                               | 3        | 2,341                 | 2,273                |
| Inventory   | 4        | 1,352                 | 433                  |
| Prepaid expenses and deposits                     |          | 1,619                 | 402                  |
| <b>Total current assets</b>                       |          | <b>9,201</b>          | <b>14,532</b>        |
| <b>Non-current assets</b>                         |          |                       |                      |
| Deposits on leases and properties                 |          | 1,491                 | 382                  |
| Property, plant and equipment                     | 5        | 49,112                | 16,340               |
| Intangible assets                                 | 6        | 22,902                | 25,148               |
| Goodwill  | 6        | 17,639                | 17,546               |
| <b>Total non-current assets</b>                   |          | <b>91,144</b>         | <b>59,416</b>        |
| <b>Total assets</b>                               |          | <b>\$ 100,345</b>     | <b>\$ 73,948</b>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>       |          |                       |                      |
| <b>Current liabilities</b>                        |          |                       |                      |
| Accounts payable and accrued liabilities          |          | \$ 10,782             | \$ 5,621             |
| Deferred revenue                                  | 9        | 236                   | 656                  |
| Secured convertible promissory notes              | 7        | -                     | 9,262                |
| Short term loans                                  | 11       | 3,492                 | -                    |
| Warrant liability                                 | 12(d)    | 1,098                 | -                    |
| Provisions  | 10       | 121                   | 200                  |
| <b>Total current liabilities</b>                  |          | <b>15,729</b>         | <b>15,739</b>        |
| <b>Non-current liabilities</b>                    |          |                       |                      |
| Convertible debenture financing                   | 8        | 8,870                 | 9,495                |
| Warrant liability                                 | 12(d)    | -                     | 2,098                |
| Finance lease                                     | 5        | 11,270                | 11,120               |
| Deferred income taxes                             |          | 1,137                 | 2,156                |
| <b>Total non-current liabilities</b>              |          | <b>21,277</b>         | <b>24,869</b>        |
| <b>Total liabilities</b>                          |          | <b>37,006</b>         | <b>40,608</b>        |
| <b>Shareholders' equity</b>                       |          |                       |                      |
| Share capital                                     | 12(b)    | 92,467                | 53,502               |
| Warrants  | 12(e)(f) | 5,195                 | 2,048                |
| Equity component of convertible debentures        | 8        | 1,491                 | 1,806                |
| Contributed surplus                               |          | 10,115                | 4,755                |
| Accumulated other comprehensive income            |          | 407                   | (263)                |
| Deficit   |          | (46,336)              | (28,508)             |
| <b>Total shareholders' equity</b>                 |          | <b>63,339</b>         | <b>33,340</b>        |
| <b>Total liabilities and shareholders' equity</b> |          | <b>\$ 100,345</b>     | <b>\$ 73,948</b>     |

Going concern (note 2A), Commitments and contingencies (note 17), Subsequent events (note 18)

Approved on behalf of the Board of Directors:

(Signed) "Anthony Holler"

Dr. Anthony Holler, Director

(Signed) "Norm Mayr"

Norm Mayr, Director

**SUNNIVA INC.**

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

For the three and nine months ended September 30, 2018 and 2017

*In thousands of Canadian dollars, except share amounts*

|   | Notes    | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |             |
|---|----------|-------------------------------------|------------|------------------------------------|-------------|
|   |          | 2018                                | 2017       | 2018                               | 2017        |
| <b>REVENUE</b>  |          | \$ 3,739                            | \$ 4,562   | \$ 13,372                          | \$ 10,215   |
| <b>COST OF GOODS SOLD</b>   |          | 1,634                               | 2,834      | 6,386                              | 6,036       |
| <b>GROSS MARGIN</b>   |          | 2,105                               | 1,728      | 6,986                              | 4,179       |
| <b>EXPENSES</b>   |          |                                     |            |                                    |             |
| Sales and marketing   |          | 254                                 | 216        | 480                                | 581         |
| General and administrative  |          | 6,166                               | 4,873      | 16,453                             | 9,249       |
| Share-based payments  | 12(g)    | 2,303                               | 3,311      | 6,408                              | 3,311       |
| Amortization and depreciation   | 5, 6     | 751                                 | 660        | 2,171                              | 1,792       |
|   |          | 9,474                               | 9,060      | 25,512                             | 14,933      |
| <b>Loss from operations</b>   |          | (7,369)                             | (7,332)    | (18,526)                           | (10,754)    |
| Other (income) expenses   |          |                                     |            |                                    |             |
| Fair value changes in derivative instruments                                | 7, 12(d) | (1,078)                             | (251)      | (750)                              | 8,675       |
| Gain on settlement of promissory note                                       | 7        | -                                   | -          | (1,011)                            | -           |
| Foreign exchange (gain) loss  |          | (77)                                | (499)      | 49                                 | (732)       |
| Interest and other expenses   |          | 385                                 | 31         | 1,267                              | 42          |
| Loss before income taxes  |          | (6,599)                             | (6,613)    | (18,081)                           | (18,739)    |
| <b>Taxes</b>  |          |                                     |            |                                    |             |
| Deferred tax expense (recovery)   |          | 182                                 | (366)      | (120)                              | (786)       |
| <b>Net loss</b>   |          | (6,781)                             | (6,247)    | (17,961)                           | (17,953)    |
| <b>Other comprehensive income:</b>  |          |                                     |            |                                    |             |
| Items that may be subsequently reclassified to earnings                     |          |                                     |            |                                    |             |
| Unrealized foreign exchange (gain) loss on translation of foreign operation |          | 340                                 | 31         | (670)                              | 29          |
| <b>Comprehensive loss</b>   |          | \$ (7,121)                          | \$ (6,278) | \$ (17,291)                        | \$ (17,982) |
| <b>Loss per share</b>   |          |                                     |            |                                    |             |
| Basic and diluted loss per share (dollars)                                  |          | \$ (0.21)                           | \$ (0.25)  | \$ (0.59)                          | \$ (0.72)   |
| Weighted average number of shares outstanding                               |          |                                     |            |                                    |             |
| Basic and diluted   |          | 32,042,054                          | 25,374,940 | 30,386,117                         | 25,101,369  |

**SUNNIVA INC.**

## Condensed Interim Consolidated Statements of Changes of Equity (Unaudited)

For the three and nine months ended September 30, 2018 and 2017

*In thousands of Canadian dollars, except share amounts*

|  | Note  | Number of shares | Share capital | Share subscriptions | Warrants | Special warrants | Equity component of convertible debentures | Contributed surplus | Accumulated other comprehensive loss | Deficit     | Total     |
|--|-------|------------------|---------------|---------------------|----------|------------------|--|---------------------|--------------------------------------|-------------|-----------|
| <b>Balance at January 1, 2017</b>            |       | 18,272,959       | \$ 23,815     | \$ 84               | \$ -     | \$ -             | \$ -                                       | \$ 415              | \$ (33)                              | \$ (10,036) | \$ 14,245 |
| Common shares issued in private placements   | 12(b) | 1,532,442        | 4,516         | -                   | -        | -                | -  | -                   | -                                    | -           | 4,516     |
| Common shares issued in NHS acquisition      | 12(b) | 5,584,371        | 18,750        | -                   | -        | -                | -  | -                   | -                                    | -           | 18,750    |
| Special warrants issued                      |       | -                | -             | -                   | -        | 6,640            | -  | -                   | -                                    | -           | 6,640     |
| Special warrants converted into shares       | 12(b) | 1,082,128        | 6,035         | -                   | -        | (6,035)          | -  | -                   | -                                    | -           | -         |
| Shareholder loan converted to shares         | 12(b) | 114,325          | 333           | -                   | -        | -                | -  | -                   | -                                    | -           | 333       |
| Share subscriptions settled                  | 12(b) | 24,568           | 84            | (84)                | -        | -                | -  | -                   | -                                    | -           | -         |
| Finders' warrants issued in share offerings  | 12(d) | 12,223           | 22            | -                   | -        | -                | -  | 322                 | -                                    | -           | 344       |
| Share based payments                         | 12(g) | -                | -             | -                   | -        | -                | -  | 3,311               | -                                    | -           | 3,311     |
| Share issuance costs                         | 12(b) | -                | (1,380)       | -                   | -        | (605)            | -  | 37                  | -                                    | -           | (1,948)   |
| Comprehensive loss for the period            |       | -                | -             | -                   | -        | -                | -  | -                   | (29)                                 | (17,953)    | (17,982)  |
| <b>Balance at September 30, 2017</b>         |       | 26,623,016       | 52,175        | -                   | -        | -                | -  | 4,085               | (62)                                 | (27,989)    | 28,209    |
| Common shares issued in private placements   | 12(b) | 13,057           | 1,327         | -                   | -        | -                | -  | -                   | -                                    | -           | 1,327     |
| Equity component of convertible debentures   | 8     | -                | -             | -                   | -        | -                | 1,806                                      | -                   | -                                    | -           | 1,806     |
| Warrants issued and revalued                 | 12(e) | -                | -             | -                   | 2,048    | -                | -  | -                   | -                                    | -           | 2,048     |
| Share based payments                         | 12(g) | -                | -             | -                   | -        | -                | -  | 670                 | -                                    | -           | 670       |
| Comprehensive loss for the period            |       | -                | -             | -                   | -        | -                | -  | -                   | (201)                                | (519)       | (720)     |
| <b>Balance at December 31, 2017</b>          |       | 26,636,073       | 53,502        | -                   | 2,048    | -                | 1,806                                      | 4,755               | (263)                                | (28,508)    | 33,340    |
| Common shares issued in bought deal          | 12(f) | 2,850,900        | 27,796        | -                   | -        | -                | -  | -                   | -                                    | -           | 27,796    |
| Finders' warrants converted into shares      | 12(c) | 349,770          | 1,640         | -                   | -        | -                | -  | (440)               | -                                    | -           | 1,200     |
| Financing warrants converted into shares     | 12(d) | 69,400           | 496           | -                   | -        | -                | -  | -                   | -                                    | -           | 496       |
| Convertible debentures converted into shares | 8     | 325,563          | 1,498         | -                   | -        | -                | (315)                                      | -                   | -                                    | -           | 1,183     |
| FSD note converted into shares               | 7     | 500,000          | 5,470         | -                   | -        | -                | -  | -                   | -                                    | -           | 5,470     |
| Stock options converted into common shares   | 12(g) | 231,250          | 1,261         | -                   | -        | -                | -  | (475)               | -                                    | -           | 786       |
| Share-based payments                         | 12(g) | -                | -             | -                   | -        | -                | -  | 6,408               | -                                    | -           | 6,408     |
| Forfeited options                            | 12(g) | -                | -             | -                   | -        | -                | -  | (133)               | -                                    | 133         | -         |
| Warrants converted into shares               | 12(e) | 1,091,259        | 8,006         | -                   | (2,048)  | -                | -  | -                   | -                                    | -           | 5,958     |
| Warrants issued in bought deal               | 12(f) | -                | (4,328)       | -                   | 5,195    | -                | -  | -                   | -                                    | -           | 867       |
| Share issuance costs                         | 12(b) | -                | (2,874)       | -                   | -        | -                | -  | -                   | -                                    | -           | (2,874)   |
| Comprehensive loss for the period            |       | -                | -             | -                   | -        | -                | -  | -                   | 670                                  | (17,961)    | (17,291)  |
| <b>Balance at September 30, 2018</b>         |       | 32,054,215       | \$ 92,467     | \$ -                | \$ 5,195 | \$ -             | \$ 1,491                                   | \$ 10,115           | \$ 407                               | \$ (46,336) | \$ 63,339 |

**SUNNIVA INC.**

## Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the three and nine months ended September 30, 2018 and 2017

*In thousands of Canadian dollars*

|   | Notes:   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |             |
|---|----------|-------------------------------------|------------|------------------------------------|-------------|
|   |          | 2018                                | 2017       | 2018                               | 2017        |
| <b>Cash provided by (used in) operating activities</b>                          |          |                                     |            |                                    |             |
| Loss for the period   |          | \$ (6,781)                          | \$ (6,247) | \$ (17,961)                        | \$ (17,953) |
| Adjustments to reconcile net loss to net cash utilized in operating activities: |          |                                     |            |                                    |             |
| Accretion   | 8        | 163                                 | -          | 510                                | -           |
| Change in provisions  | 10       | (182)                               | -          | (79)                               | -           |
| Fair value changes in derivative instruments                                    | 7, 12(d) | (1,078)                             | (251)      | (750)                              | 8,675       |
| Share-based payments  | 12(g)    | 2,303                               | 3,311      | 6,408                              | 3,311       |
| Gain on settlement of promissory note   | 7        | -                                   | -          | (1,011)                            | -           |
| Amortization and depreciation   | 5, 6     | 751                                 | 660        | 2,171                              | 1,792       |
| Deferred tax expense (recovery)   |          | 182                                 | (366)      | (120)                              | (786)       |
| Net cash utilized in operating activities                                       |          | (4,642)                             | (2,893)    | (10,832)                           | (4,961)     |
| Changes in non-cash operating assets and liabilities:                           |          |                                     |            |                                    |             |
| Restricted cash   |          | -                                   | -          | (337)                              | -           |
| Accounts receivable   |          | 1,133                               | 125        | (68)                               | (1,445)     |
| Inventory   |          | (1,024)                             | 218        | (919)                              | 90          |
| Prepaid expenses  |          | (1,313)                             | (437)      | (1,217)                            | (512)       |
| Accounts payable and accrued liabilities  |          | 3,666                               | 1,619      | 5,162                              | 824         |
| Deferred revenue  |          | 88                                  | 727        | (420)                              | 2,572       |
| Net cash used in operating activities   |          | (2,092)                             | (641)      | (8,631)                            | (3,432)     |
| <b>Cash used in investing activities</b>  |          |                                     |            |                                    |             |
| Deposits on properties and leases   |          | 557                                 | (42)       | (1,109)                            | (89)        |
| Purchase of property, plant, and equipment                                      | 5        | (13,539)                            | (1,322)    | (33,672)                           | (7,168)     |
| Purchase of licenses  |          | -                                   | (567)      | -                                  | (567)       |
| Cash paid for business acquisitions   |          | -                                   | (68)       | -                                  | (2,454)     |
| Net cash used in investing activities   |          | (12,982)                            | (1,999)    | (34,781)                           | (10,278)    |
| <b>Cash provided by (used in) financing activities</b>                          |          |                                     |            |                                    |             |
| Net repayment of shareholder loans  |          | -                                   | (2,586)    | -                                  | (6,520)     |
| Proceeds from short term loans  | 11       | -                                   | -          | 3,492                              | -           |
| Net proceeds from issuance of share capital                                     | 12(b)    | 132                                 | 1,975      | 27,907                             | 5,935       |
| Net proceeds from issuance of warrants  |          | -                                   | 183        | 5,195                              | 6,035       |
| Net repayment of promissory notes   | 7        | -                                   | -          | (2,781)                            | -           |
| Share subscriptions received  |          | -                                   | -          | -                                  | (84)        |
| Net cash provided by financing activities                                       |          | 132                                 | (428)      | 33,813                             | 5,366       |
| <b>Effect of foreign exchange on cash and cash equivalents</b>                  |          | 964                                 | (519)      | 1,727                              | (555)       |
| <b>Increase (decrease) in cash</b>  |          | (13,978)                            | (3,587)    | (7,872)                            | (8,899)     |
| Cash and cash equivalents, beginning of period                                  |          | 17,530                              | 4,301      | 11,424                             | 9,613       |
| <b>Cash and cash equivalents, end of period</b>                                 |          | \$ 3,552                            | \$ 714     | \$ 3,552                           | \$ 714      |

**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, 2018 and 2017

**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 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 involves considerable risk.

**2. SIGNIFICANT ACCOUNTING POLICIES****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, 2018 has not generated sufficient revenue to fund operations or planned capital expenditures. The Company has an accumulated deficit of \$46,336 as at September 30, 2018 (December 31, 2017 - \$28,508) and incurred net losses of \$6,781 and \$17,961 for the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017 - \$6,247 and \$17,953).

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.

**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, 2018 and 2017

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****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 (“IFRIC”).

The Interim Financial Statements do not include all of the information required for full annual 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, 2017.

The Interim Financial Statements were authorized for issuance by the Board of Directors on November 28, 2018.

**C) BASIS OF MEASUREMENT**

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

**D) FUNCTION CURRENCY AND PRESENTATION CURRENCY**

These Interim Financial Statements are presented in Canadian dollars (“CAD”), which is the Company’s functional currency. 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.                        | CAD                 | British Columbia, Canada      |
| 1167025 BC Ltd.                             | CAD                 | British Columbia, Canada      |
| Natural Health Services Ltd. (“NHS”)        | CAD                 | Alberta, Canada               |
| 1964433 Alberta Ltd.                        | CAD                 | Alberta, Canada               |
| CP Logistics, LLC                           | USD                 | North Carolina, USA           |
| Full-Scale Distributors, LLC (“FSD”)        | USD                 | Florida, USA                  |
| Sunniva Full-Scale Distributors Corporation | USD                 | California, USA               |
| Sun CA Holdings, Inc.                       | USD                 | California, USA               |
| Sunny People, LLC                           | USD                 | California, USA               |
| A1 Perez, LLC                               | USD                 | Delaware, USA                 |
| Sun Holdings Management, LLC                | USD                 | Delaware, USA                 |

**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, 2018 and 2017

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of the Company's 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 these 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, 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 7, 8 and 12.



**SUNNIVA INC.**

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(Expressed in thousands of Canadian dollars, except as otherwise noted)

For the three and nine months ended September 30, 2018 and 2017

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)****(d) Business Combinations**

For business combinations, the Company must make assumptions and estimates to determine the purchase price allocation of the business being acquired. To do so, the Company must determine the acquisition date fair value of the identifiable assets acquired, including intangible assets. The determination of these fair market values involves the use of discounted cash flow analyses and future sales growth. Goodwill is measured as the excess of the fair value of the consideration over the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. These assumptions and estimates have an impact on the assets and liability amounts recorded in the consolidated statement of financial position on the acquisition date.

**(e) 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 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.

**(f) 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.

**(g) 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.

## SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

#### (ii) Judgments:

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

- the determination of functional currency;
- the determination of the fair value of the secured convertible promissory notes;
- the determination of the fair value of warrant liabilities; and
- the determination of the Company's ability to continue as a going concern.

### G) NEW AND AMENDED STANDARDS ADOPTED

The following standards and amendments have been adopted by the Company for the first time for the financial year beginning on January 1, 2018:

#### (a) IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 on a modified retrospective basis in accordance with the transitional provisions of IFRS 9. As such, comparative figures have not been restated.

#### Financial Assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instruments' contractual cash flow characteristics and the business models under which they are held. Under the IFRS 9 model for classification of financial assets, the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents are classified as financial assets at fair value through profit or loss and measured at fair value during their quotational period until the final settlement price is determined. Previously under IAS 39 these amounts were classified as loans and receivables.
- Trade receivables and other receivables are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loans and receivables.

The adoption of IFRS 9 did not result in a change in the carrying values of any of the Company's financial assets on the transition date.

#### Financial Liabilities

For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company does not have any financial liabilities designated at fair value through profit or loss, except secured convertible promissory notes payable, short term loans and warrants. The adoption of IFRS 9 did not impact the Company's accounting policies for financial liabilities.

#### Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on the changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****G) NEW AND AMENDED STANDARDS ADOPTED (Continued)**

The following accounting policy update from the financial assets and liabilities policy disclosed at year-end in note 3 has been made.

Financial assets and financial liabilities are initially measured at fair value and are subsequently re-measured based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability, other than financial assets and liabilities recorded at fair value through earnings, are added to or deducted from the fair value of the respective financial asset or financial liability on initial recognition. Transaction costs that are directly attributable to the acquisition of a financial asset or financial liability recorded at fair value through earnings are recognized immediately in earnings. Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(i) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through earnings, financial assets at amortized cost, and financial assets at fair value through other comprehensive income. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

- Financial assets at fair value through earnings include the Company's cash and cash equivalents. A financial asset is classified in this category if it does not meet the criteria for amortized cost or fair value through other comprehensive income, or is a derivative instrument not designated for hedging. Gains and losses arising from changes in fair value are presented in the condensed interim consolidated statements of loss and comprehensive loss in the period in which they arise.
- Financial assets at amortized cost include the Company's trade receivables and other receivables. Financial assets at amortized cost are financial assets that are held for the purposes of collecting contractual cash flows, and the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other expenses.
- Financial assets at fair value through other comprehensive income are financial assets that are held in a business model with an objective that is achieved by both collecting contractual cash flows and selling financial assets, and where the assets' cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other expenses. Foreign exchange gains and losses are presented in other expenses and impairment expenses are presented as a separate line item in the statement of profit or loss.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****G) NEW AND AMENDED STANDARDS ADOPTED (Continued)**

At each balance sheet date, the Company assesses on a forward-looking basis, the expected credit losses associated with its financial assets carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. When sold or impaired, any accumulated fair value adjustments previously recognized are included in profit or loss.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

**(ii) Financial liabilities**

All financial liabilities are recognized initially at fair value plus any directly attributable transactions costs on the date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in earnings. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Company has classified accounts payables and accrued liabilities and secured convertible debentures, as other financial liabilities. The Company's derivative financial liabilities are stated at fair value with changes recognized through earnings.

**(b) IFRS 15 – Revenue from contracts with customers**

The Company has adopted IFRS 15 on a modified retrospective basis in accordance with the transitional provisions of IFRS 15.

IFRS 15 requires that revenue from contracts with customers be recognized upon the transfer of control over goods or services to the customer. The recognition of revenue upon transfer of control to the customer is consistent with the recognition of revenue under the criteria in the revenue recognition policy as set out in note 3 of the fiscal 2017 consolidated financial statements, as the condition is generally satisfied when title transfers to the customer. The Company has concluded that there are no significant differences between the point of risks and rewards transfer for its sales under IAS 18 and the point of transfer of control under IFRS 15. As such, no adjustment has been recorded to the opening deficit balance at January 1, 2018.

The following accounting policy update from the revenue policy disclosed at year end in note 3 has been made:

Revenue is recognized at the fair value of the consideration received or receivable. Revenue from the sale of goods and services is recognized when the following conditions have been satisfied:

- Contracts with customers have been identified
- Performance obligations in the contract have been identified
- Transaction price is determined
- Transaction price is allocated to the performance obligations in the contract
- Performance obligation in the contract is satisfied

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For the three and nine months ended September 30, 2018 and 2017

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****G) NEW AND AMENDED STANDARDS ADOPTED (Continued)**

The Company, through NHS, provides healthcare and other services to its patients. The revenue recognized relates to invoiced fees submitted to each provincial health authority for healthcare services. The services are provided based on pricing established by the provinces from time-to-time, the nature of the physician's medical assessment, and the level of specialization of the physician. Revenue is recognized upon completion of the physician's rendered service in line with the conditions listed above.

**H) NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE**

## IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – Leases, which supersedes IAS 17 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single model for lessees to bring leases on balance sheet while lessor accounting remains largely unchanged and retains the finance and operating lease distinctions. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted, but only if also applying IFRS 15 – Revenue from Contracts with Customers. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements, and plans to adopt the new standard on the required effective date.

**3. ACCOUNTS RECEIVABLE**

|                           | September<br>30, 2018 | December<br>31, 2017 |
|---------------------------|-----------------------|----------------------|
| Trade accounts receivable | \$ 2,341              | \$ 2,273             |

**4. INVENTORY**

Inventory consists of merchandise on hand as at September 30, 2018, in the amount of \$1,352 (December 31, 2017 - \$433). The cost of inventory recognized as an expense and included in cost of sales for the three and nine months ended September 30, 2018 amounted to \$812 and \$3,711 (three and nine months ended September 30, 2017 - \$1,289 and \$2,455).

**5. PROPERTY, PLANT AND EQUIPMENT**

|   | Land     | Construction<br>in progress | Finance<br>Lease | Equipment | Total     |
|---|----------|-----------------------------|------------------|-----------|-----------|
| <b>Costs</b>  |          |                             |                  |           |           |
| Balance, January 1, 2017                            | \$ 1,785 | \$ 197                      | \$ -             | \$ 49     | \$ 2,031  |
| Acquisition of NHS                                  | -        | -                           | -                | 225       | 225       |
| Additions   | 5,088    | 5,814                       | -                | 493       | 11,395    |
| Sale and lease back (note 12(e))                    | (6,873)  | (4,573)                     | 11,446           | -         | -         |
| Warrants issued in sale and lease back (note 12(e)) | -        | -                           | 2,804            | -         | 2,804     |
| Balance, December 31, 2017                          | -        | 1,438                       | 14,250           | 767       | 16,455    |
| Additions   | 7,928    | 25,208                      | -                | 585       | 33,721    |
| Disposals   | -        | -                           | -                | (49)      | (49)      |
| Foreign exchange                                    | -        | (916)                       | 225              | (1)       | (692)     |
| Balance, September 30, 2018                         | \$ 7,928 | \$ 25,730                   | \$ 14,475        | \$ 1,302  | \$ 49,435 |

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For the three and nine months ended September 30, 2018 and 2017

**5. PROPERTY, PLANT AND EQUIPMENT (Continued)**

|                                 | Land | Construction<br>in progress | Finance<br>Lease | Equipment | Total  |
|---------------------------------|------|-----------------------------|------------------|-----------|--------|
| <b>Accumulated Depreciation</b> |      |                             |                  |           |        |
| Balance, January 1, 2017        | \$ - | \$ -                        | \$ -             | \$ -      | \$ -   |
| Depreciation                    | -    | -                           | -                | 115       | 115    |
| Balance, December 31, 2017      | -    | -                           | -                | 115       | 115    |
| Depreciation                    | -    | -                           | -                | 208       | 208    |
| Balance, September 30, 2018     | \$ - | \$ -                        | \$ -             | \$ 323    | \$ 323 |

**Net book value**

|                    |          |           |           |        |           |
|--------------------|----------|-----------|-----------|--------|-----------|
| December 31, 2017  | \$ -     | \$ 1,438  | \$ 14,250 | \$ 652 | \$ 16,340 |
| September 30, 2018 | \$ 7,928 | \$ 25,730 | \$ 14,475 | \$ 979 | \$ 49,112 |

**6. INTANGIBLE ASSETS AND GOODWILL**

|                             | Licenses  | Software | Trademarks | Customer<br>Relationships | Non-<br>compete<br>Agreement | Total     |
|-----------------------------|-----------|----------|------------|---------------------------|------------------------------|-----------|
| <b>Costs:</b>               |           |          |            |                           |                              |           |
| Balance, January 1, 2017    | \$ 13,566 | \$ -     | \$ -       | \$ -                      | \$ -                         | \$ 13,566 |
| Additions                   | 1,124     | 4,252    | 1,483      | 5,572                     | 1,700                        | 14,131    |
| Foreign exchange            | -         | -        | -          | (70)                      | (69)                         | (139)     |
| Balance, December 31, 2017  | 14,690    | 4,252    | 1,483      | 5,502                     | 1,631                        | 27,558    |
| Foreign exchange            | (391)     | -        | -          | 53                        | 53                           | (285)     |
| Balance, September 30, 2018 | \$ 14,299 | \$ 4,252 | \$ 1,483   | \$ 5,555                  | \$ 1,684                     | \$ 27,273 |

|                                  | Licenses | Software | Trademarks | Customer<br>Relationships | Non-<br>compete<br>Agreement | Total    |
|----------------------------------|----------|----------|------------|---------------------------|------------------------------|----------|
| <b>Accumulated amortization:</b> |          |          |            |                           |                              |          |
| Balance, January 1, 2017         | \$ -     | \$ -     | \$ -       | \$ -                      | \$ -                         | \$ -     |
| Amortization                     | -        | 650      | 136        | 1,104                     | 520                          | 2,410    |
| Balance, December 31, 2017       | -        | 650      | 136        | 1,104                     | 520                          | 2,410    |
| Amortization                     | -        | 532      | 111        | 902                       | 418                          | 1,963    |
| Foreign exchange                 | -        | -        | -          | 1                         | (3)                          | (2)      |
| Balance, September 30, 2018      | \$ -     | \$ 1,182 | \$ 247     | \$ 2,007                  | \$ 935                       | \$ 4,371 |

**Net book value:**

|                    | Licenses  | Software | Trademarks | Customer<br>Relationships | Non-<br>compete<br>Agreement | Total     |
|--------------------|-----------|----------|------------|---------------------------|------------------------------|-----------|
| December 31, 2017  | \$ 14,690 | \$ 3,602 | \$ 1,347   | \$ 4,398                  | \$ 1,111                     | \$ 25,148 |
| September 30, 2018 | \$ 14,299 | \$ 3,070 | \$ 1,236   | \$ 3,548                  | \$ 749                       | \$ 22,902 |

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**6. INTANGIBLE ASSETS AND GOODWILL (Continued)**

|                             | Goodwill  |
|-----------------------------|-----------|
| Balance, January 1, 2017    | \$ -      |
| Additions                   | 17,670    |
| Foreign exchange            | (124)     |
| Balance, December 31, 2017  | 17,546    |
| Foreign exchange            | 93        |
| Balance, September 30, 2018 | \$ 17,639 |

The Company performs goodwill impairment testing at least each reporting period and whenever impairment indicators are identified. The Company has identified 3 CGUs for purposes of performing its impairment analysis. As at September 30, 2018, no impairment indicators were identified and management concluded that there was no goodwill impairment.

**7. SECURED CONVERTIBLE PROMISSORY NOTES**

On February 10, 2017, the Company issued a secured promissory note (the "FSD note") in an aggregate principal amount of \$4,576 (US\$3,500) relating to the FSD acquisition. On February 15, 2018, the FSD note was repaid partially in cash of \$2,781 (US\$2,225), plus accrued interest, and the remaining portion through the issuance of 500,000 common shares at a conversion price of \$3.19 (US\$2.55) per common share.

The continuity of the secured convertible notes is as follows:

|                                       | Amount   |
|---------------------------------------|----------|
| Balance, January 1, 2017              | \$ 9,333 |
| Issuance of promissory notes          | 2,936    |
| Issuance of the FSD note              | 4,576    |
| Repayment of promissory notes         | (11,890) |
| Valuation adjustment for the FSD note | 4,872    |
| Foreign exchange adjustment           | (565)    |
| Balance, December 31, 2017            | 9,262    |
| Valuation adjustment for FSD note     | 14       |
| Repayment of the FSD note             | (2,781)  |
| Conversion of the FSD note            | (5,470)  |
| Gain on settlement of the FSD note    | (1,011)  |
| Foreign exchange adjustment           | (14)     |
| Balance, September 30, 2018           | \$ -     |

**8. CONVERTIBLE DEBENTURE FINANCING**

In November and December 2017, the Company completed a private placement of unsecured convertible debentures in the aggregate principal amount of \$12,135. The debentures bear interest at 8% per annum, payable annually and mature on December 31, 2020. The debentures are convertible into common shares of the Company at a price of \$4.60 per 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.

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**8. CONVERTIBLE DEBENTURE FINANCING (Continued)**

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%. 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, 2017    | \$ -     |
| Issued                      | 12,135   |
| Equity portion              | (2,632)  |
| Accretion                   | 127      |
| Financing fees              | (135)    |
| Balance, December 31, 2017  | 9,495    |
| Conversion of debentures    | (1,134)  |
| Accretion                   | 510      |
| Balance, September 30, 2018 | \$ 8,870 |

As at September 30, 2018, \$1,449 of the convertible debentures had been converted into 325,563 common shares. This resulted in a reduction in convertible debenture financing of \$1,134 and a transfer of \$315 from the equity portion of convertible debentures to share capital in the statement of changes in equity.

**9. 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 \$236 of customer deposits at September 30, 2018 (December 31, 2017 - \$656).

**10. PROVISIONS**

|                                 | Onerous<br>Lease | Contingent<br>Consideration | Total  |
|---------------------------------|------------------|-----------------------------|--------|
| Balance, January 1, 2017        | \$ 202           | \$ -                        | \$ 202 |
| Provisions made during the year | -                | 57                          | 57     |
| Amortization of provision       | (59)             | -                           | (59)   |
| Balance, December 31, 2017      | 143              | 57                          | 200    |
| Amortization of provision       | (306)            | -                           | (306)  |
| Increase in provision           | 227              | -                           | 227    |
| Balance, September 30, 2018     | \$ 64            | \$ 57                       | \$ 121 |

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 contingent consideration is related to the acquisition of FSD.



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**11. SHORT TERM LOANS**

In June 2018, the Company 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 June 15, 2019 and has an interest rate of 5% per annum. The Company has the option to repay the principal at any time without additional fees. The mortgage is denominated in Canadian dollars and is carried at amortized cost. It therefore did not have any impact on the Company's exposure to foreign exchange and cash flow interest rate risk.

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

The Company has authorized an unlimited number of common shares without par value.

**(b) Issued and Outstanding – Common Shares**

|   | Number of<br>Shares | Price             | Total     |
|---|---------------------|-------------------|-----------|
| Balance, January 1, 2017  | 18,272,959          |                   | \$ 23,815 |
| Private placement   | 1,039,215           | \$3.33 (US\$2.55) | 3,465     |
| Private placement   | 5,880               | \$3.40            | 20        |
| Private placement   | 40,000              | \$3.36 (US\$2.55) | 133       |
| Private placement   | 263,675             | \$3.40            | 897       |
| Share subscriptions settled                                     | 1,960               | \$3.38 (US\$2.55) | 6         |
| Share subscriptions settled                                     | 3,000               | \$3.40            | 10        |
| Acquisition of Natural Health Services Ltd.                     | 5,584,371           | \$3.31 (US\$2.55) | 18,750    |
| Share subscriptions settled                                     | 19,608              | \$3.44 (US\$2.55) | 68        |
| Conversion of shareholder loans                                 | 114,325             | \$2.91            | 333       |
| Private placement   | 183,672             | \$6.75            | 1,240     |
| Non-brokered private placement                                  | 13,057              | \$6.75            | 88        |
| Conversion of special warrants                                  | 1,082,128           | \$6.75            | 6,035     |
| Conversion of finders' warrants                                 | 12,223              | \$6.75            | 22        |
| Share issuance costs and finders warrant                        |                     |                   | (1,380)   |
| Balance, December 31, 2017                                      | 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                                     | 2,850,900           | \$9.75            | 27,796    |
| Warrants issued in bought deal public offering                  |                     |                   | (4,328)   |
| 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                 |                     |                   | 930       |
| 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 debentures  | 325,563             | \$4.60            | 1,497     |
| Proceeds on conversion of stock options                         | 231,250             | \$3.40            | 786       |
| Conversion of stock options                                     |                     |                   | 476       |
| Share issuance costs  |                     |                   | (2,874)   |
| Balance, September 30, 2018                                     | 32,054,215          |                   | \$ 92,467 |

**SUNNIVA INC.**

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**12. SHARE CAPITAL (Continued)****(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 of the Company upon payment of the exercise price.

| Issue Date        | Issued  | Exercised | 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     |                |                  |

As at September 30, 2018, 349,772 warrants were exercised for proceeds of \$1,200, which is included in share capital along with a transfer of \$440 from 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 of the Company 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 | (69,400)  | 30,600      | US \$2.55      | May 1, 2019    |
| December 29, 2016 | 300,000 | -         | 300,000     | US \$2.55      | July 19, 2019  |
|                   | 500,000 | (69,400)  | 430,600     |                |                |

The weighted average grant date fair value of the financing warrants was determined to be \$1.61 per warrant for a total of \$804. During the three and nine months ended September 30, 2018, 69,400 of the financing warrants had been exercised for proceeds of \$219, which is included in share capital along with \$277 transferred from the warrant liability.

As at September 30, 2018, the fair value of the warrants ranged from \$2.40 to \$2.48 per warrant. The warrants have a fair value of \$1,098. The fair value of these warrants was determined on the date of the grant and September 30, 2018 using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 1.54%;
- expected life of 0.75 years;
- expected volatility of 54%; and
- expected dividends of \$Nil.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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**12. SHARE CAPITAL (Continued)****(d) Financing warrants (Continued)**

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

|                               | Amount   |
|-------------------------------|----------|
| Balance, January 1, 2017      | \$ 764   |
| Valuation adjustment          | 1,449    |
| Foreign exchange adjustment   | (115)    |
| Balance, December 31, 2017    | 2,098    |
| Valuation adjustment          | (764)    |
| Conversion into common shares | (277)    |
| Foreign exchange adjustment   | 41       |
| Balance, September 30, 2018   | \$ 1,098 |

**(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 of the Company 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 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 Finance Lease 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, 2017                          | \$ -    |
| Issuance  | 2,804   |
| Deferred tax recovery                             | (756)   |
| Balance, December 31, 2017                        | 2,048   |
| Conversion into common shares                     | (2,048) |
| Balance, December 31, 2017 and September 30, 2018 | \$ -    |

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**12. SHARE CAPITAL (Continued)****(f) Warrants issued in bought deal public offering**

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 ("Units") and 50,000 Warrants (as defined below) were sold at a price of \$9.75 per Unit and \$0.02 per Warrant. Each Unit consisted of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant") of the Company. Each whole Warrant entitles the holder thereof to acquire one common share at an exercise price per share of \$12.50 for a period of 24 months from the date of issuance.

The grant date fair value of the Warrants was determined to be \$3.37 per Warrant for a total of \$4,495 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 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.

**(g) 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 Exchange requirements, 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. Options issued vest one-sixteenth every three months from the date of grant. There are 3,366,862 options that have not vested as at September 30, 2018. A summary of the status of the options outstanding is as follows:

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**12. SHARE CAPITAL (Continued)****(g) Share-based payments (Continued)**

|                             | Stock options | Weighted Average<br>Exercise Price |
|-----------------------------|---------------|------------------------------------|
| Balance, January 1, 2017    | -             | \$ -                               |
| Granted                     | 3,695,000     | 4.26                               |
| Forfeited                   | (384,375)     | (3.40)                             |
| Balance, December 31, 2017  | 3,310,625     | \$ 4.36                            |
| Granted                     | 1,359,500     | 7.24                               |
| Exercised                   | (231,250)     | (3.40)                             |
| Forfeited                   | (80,125)      | (6.78)                             |
| Expired                     | (21,875)      | (6.75)                             |
| Balance, September 30, 2018 | 4,336,875     | \$ 5.25                            |

The following table summarizes the stock options that remain outstanding as at September 30, 2018:

| Exercise Price | Options Outstanding | Expiry Date    | Average Remaining Contract Life | Options Exercisable |
|----------------|---------------------|----------------|---------------------------------|---------------------|
| \$3.40         | 2,034,375           | April 2027     | 8.54                            | 635,742             |
| \$3.40         | 100,000             | June 2027      | 8.71                            | 31,250              |
| \$6.75         | 50,000              | July 2027      | 8.76                            | 12,500              |
| \$6.75         | 50,000              | July 2027      | 8.84                            | 12,500              |
| \$6.75         | 120,000             | August 2027    | 8.88                            | 30,000              |
| \$6.75         | 50,000              | August 2027    | 8.91                            | 12,500              |
| \$6.75         | 400,000             | October 2027   | 9.07                            | 75,000              |
| \$6.75         | 175,000             | December 2027  | 9.19                            | 32,813              |
| \$6.75         | 650,000             | January 2028   | 9.42                            | 81,250              |
| \$8.11         | 250,000             | June 2028      | 9.69                            | 20,833              |
| \$7.81         | 307,500             | June 2028      | 9.75                            | 25,625              |
| \$6.73         | 150,000             | September 2028 | 9.94                            | -                   |
|                | 4,336,875           |                | 8.97                            | 970,013             |

The Company recognized a share-based payments expense of \$2,303 and \$6,408 for the three and nine months ended September 30, 2018 (\$3,311 for the three and nine months ended September 30, 2017). The total fair value of the options granted during the three and nine months ended September 30, 2018 was \$858 and \$7,787 (\$nil for the three and nine months ended September 30, 2017).

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 2.27%;
- expected life of 10 years;
- expected volatility of 87%; and
- expected dividends of \$Nil.

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**12. SHARE CAPITAL (Continued)****(g) Share-based payments (Continued)**

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. 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.

**13. 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 the 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 is responsible for overseeing this process. As at September 30, 2018, the Company is not subject to externally imposed capital requirements.

**14. 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, finance lease, secured convertible promissory notes payable, and warrants. 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, 2018 and December 31, 2017.

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 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 secured convertible promissory notes payable and warrants 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.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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**14. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)****(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:

|                                      |         |
|--------------------------------------|---------|
| Secured convertible promissory notes | Level 3 |
|--------------------------------------|---------|

|          |         |
|----------|---------|
| Warrants | Level 3 |
|----------|---------|

There were no transfers between the levels during the periods ended September 30, 2018 nor December 31, 2017.

As at September 30, 2018 and December 31, 2017, 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.

**(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.

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, but this risk is limited as certain sales are transacted with credit cards.

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**14. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)**

## (b) Credit risk (Continued):

As at September 30, 2018 and December 31, 2017, the Company's aging of receivables was approximately as follows:

|                  | At September<br>30, 2018 | At December 31,<br>2017 |
|------------------|--------------------------|-------------------------|
| 0 – 30 days      | 1,058                    | 1,022                   |
| 31 – 60 days     | 263                      | 348                     |
| 61 – 90 days     | 91                       | 180                     |
| 91 days and over | 929                      | 723                     |
|                  | <u>\$ 2,341</u>          | <u>\$ 2,273</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 outlined in note 17, the Company has the following contractual obligations:

| As at September 30, 2018                 | Total            | <1 Year          | 1 – 3 years      | 3 – 5 years |
|--|------------------|------------------|------------------|-------------|
| Accounts payable and accrued liabilities | \$ 10,782        | \$ 10,782        | \$ -             | \$ -        |
| Secured promissory notes                 | -                | -                | -                | -           |
| Short term loans                         | 3,492            | 3,492            | -                | -           |
| Warrant liability                        | 1,098            | 1,098            | -                | -           |
| Convertible debenture financing          | 8,870            | -                | 8,870            | -           |
|  | <u>\$ 24,242</u> | <u>\$ 15,372</u> | <u>\$ 8,870</u>  | <u>\$ -</u> |
| <hr/>                                    |                  |                  |                  |             |
| As at December 31, 2017                  | Total            | <1 Year          | 1 – 3 years      | 3 – 5 years |
| Accounts payable and accrued liabilities | \$ 5,621         | \$ 5,621         | \$ -             | \$ -        |
| Secured promissory notes                 | 9,262            | 9,262            | -                | -           |
| Short term loans                         | -                | -                | -                | -           |
| Warrant liability                        | 2,098            | -                | 2,098            | -           |
| Convertible debenture financing          | 9,495            | -                | 9,495            | -           |
|  | <u>\$ 26,476</u> | <u>\$ 14,883</u> | <u>\$ 11,593</u> | <u>\$ -</u> |

## (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.



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**14. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)**

## (d) Currency risk (Continued):

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, 2018, including cash, accounts receivable and accounts payable, etc., would result in an increase or decrease of approximately \$335 (December 31, 2017 - \$108) to the net loss and comprehensive loss for the nine months ended September 30, 2018.

## (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.

**15. 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:

|                              | (000s) | Three months ended<br>September 30, 2018 | Three months ended<br>September 30, 2017 |
|------------------------------|--------|--|--|
| Salaries and consulting fees |        | \$ 743                                   | \$ 568                                   |
| Share-based payments         |        | 1,401                                    | 1,853                                    |
|                              |        | <u>\$ 2,144</u>                          | <u>\$ 2,421</u>                          |

|                              | (000s) | Nine months ended<br>September 30, 2018 | Nine months ended<br>September 30, 2017 |
|------------------------------|--------|---|---|
| Salaries and consulting fees |        | \$ 2,130                                | \$ 1,257                                |
| Share-based payments         |        | 3,546                                   | 1,853                                   |
|                              |        | <u>\$ 5,676</u>                         | <u>\$ 3,110</u>                         |

Amounts due to related parties is as follows as at:

|                           | September 30, 2018 | December 31, 2017 |
|---------------------------|--------------------|-------------------|
| Consulting fees and wages | <u>\$ 185</u>      | <u>\$ 59</u>      |

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**15. RELATED PARTY TRANSACTIONS (Continued)****(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 transactions**

During the three and nine months ended September 30, 2018, the Company paid \$226 and \$587 to a legal firm which is associated with a director (three and nine months ended September 30, 2017 - \$126 and \$260). As at September 30, 2018, the Company owes the legal firm \$23 (as at December 31, 2017 - \$26).

During the three and nine months ended September 30, 2018, the Company paid \$161 to a consulting firm which is associated with a director (three and nine months ended September 30, 2017 - \$nil). As at September 30, 2018, the Company owes the consulting firm \$80 (as at December 31, 2017 - \$nil).

During the three and nine months ended September 30, 2018, an investment fund which is associated with a director invested \$nil in the Company (three and nine months ended September 30, 2017 - \$3,465) through the purchase of common shares.

In October 2017, the Company entered into an agreement with a property development company, which is associated with a director, to construct and subsequently lease the greenhouse facility in Cathedral City, California. As part of this arrangement, a company in which the director has a significant interest was issued 1,091,259 warrants convertible at \$4.60 per common share (note 12(e)). These warrants were exercised on April 12, 2018.

The Company has entered into an agreement with entities owned or controlled by an employee of the Company, whereby the Company funds 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 "Genetics Arrangement"). The cannabis genetic and propagating materials will be used at the Sunniva California Campus. The expenses paid by the Company pursuant to the Genetics Arrangement are approximately USD\$75,000 per month, paid on a month-to-month basis.

**16. SEGMENTED INFORMATION**

The Company has three operating segments, referred to as Patient Counselling, Merchandising and Corporate. The operating segments are reportable segments in accordance with IFRS 8 Operating Segments.

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**16. SEGMENTED INFORMATION (Continued)**

| Three months ended<br>September 30, 2018 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate  | Total      |
|--|------------------------|---------------|-----------------------------|------------|------------|
| Revenue                                  | \$ 2,557               | \$ 1,093      | \$ 89                       | \$ -       | \$ 3,739   |
| Gross margin                             | 1,891                  | 194           | 20                          | -          | 2,105      |
| Income (loss) from operations            | (479)                  | (131)         | (1,341)                     | (5,418)    | (7,369)    |
| Net income (loss)                        | \$ 269                 | \$ (132)      | \$ (1,361)                  | \$ (5,557) | \$ (6,781) |

| Three months ended<br>September 30, 2017 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate  | Total      |
|--|------------------------|---------------|-----------------------------|------------|------------|
| Revenue                                  | \$ 3,287               | \$ 1,275      | \$ -                        | \$ -       | \$ 4,562   |
| Gross margin                             | 1,834                  | (106)         | -                           | -          | 1,728      |
| Income (loss) from operations            | (1,152)                | (179)         | -                           | (6,001)    | (7,332)    |
| Net income (loss)                        | \$ (1,148)             | \$ (183)      | \$ -                        | \$ (4,916) | \$ (6,247) |

| Nine months ended<br>September 30, 2018 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate   | Total       |
|---|------------------------|---------------|-----------------------------|-------------|-------------|
| Revenue                                 | \$ 8,392               | \$ 4,891      | \$ 89                       | \$ -        | \$ 13,372   |
| Gross margin                            | 6,177                  | 789           | 20                          | -           | 6,986       |
| Income (loss) from operations           | (1,462)                | 69            | (1,525)                     | (15,608)    | (18,526)    |
| Net income (loss)                       | \$ (416)               | \$ 68         | \$ (1,545)                  | \$ (16,068) | \$ (17,961) |

| Nine months ended<br>September 30, 2017 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate   | Total       |
|---|------------------------|---------------|-----------------------------|-------------|-------------|
| Revenue                                 | \$ 7,400               | \$ 2,815      | \$ -                        | \$ -        | \$ 10,215   |
| Gross margin                            | 3,931                  | 248           | -                           | -           | 4,179       |
| Income (loss) from operations           | (2,881)                | (275)         | -                           | (7,598)     | (10,754)    |
| Net income (loss)                       | \$ (2,870)             | \$ (289)      | \$ -                        | \$ (14,794) | \$ (17,953) |

| As at September 30, 2018 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate | Total      |
|--------------------------|------------------------|---------------|-----------------------------|-----------|------------|
| Total assets             | \$ 24,197              | \$ 1,805      | \$ 39,470                   | \$ 34,873 | \$ 100,345 |
| Total liabilities        | \$ 2,187               | \$ 913        | \$ 14,226                   | \$ 19,680 | \$ 37,006  |

| As at December 31, 2017 | Patient<br>Counselling | Merchandising | Cultivation &<br>Extraction | Corporate | Total     |
|-------------------------|------------------------|---------------|-----------------------------|-----------|-----------|
| Total assets            | \$ 25,156              | \$ 7,104      | \$ -                        | \$ 41,688 | \$ 73,948 |
| Total liabilities       | \$ 3,865               | \$ 2,313      | \$ -                        | \$ 34,430 | \$ 40,608 |

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**17. COMMITMENTS AND CONTINGENCIES**

## (a) Lease commitments

The Company is committed under a lease agreement with respect to office premises located in Calgary, Alberta and Vancouver, British Columbia expiring on October 31, 2027 and May 31, 2023, 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 two leases which commenced in 2016 and a facility in Cathedral City, California commencing in 2018. The terms of the first two leases are five years with monthly payments of rent expiring on September 30, 2021 and December 31, 2021, respectively. The lease in Cathedral City has a term of 15 years with three options to extend by 5 years each.

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

|            | Cathedral<br>City | Others          | Total             |
|------------|-------------------|-----------------|-------------------|
| 2018       | \$ 980            | \$ 550          | \$ 1,530          |
| 2019       | 10,074            | 1,879           | 11,953            |
| 2020       | 12,089            | 1,891           | 13,980            |
| 2021       | 12,089            | 1,229           | 13,318            |
| Thereafter | 161,767           | 2,829           | 164,596           |
|            | <u>\$ 196,999</u> | <u>\$ 8,378</u> | <u>\$ 205,377</u> |

## (b) Legal proceedings

From time to time, the Company may be subject to various legal proceedings and claims related to matters arising in the ordinary course of business. The Company does not believe it is currently subject to any material matters where there is at least a reasonable possibility that a material loss may be incurred.

**18. SUBSEQUENT EVENTS**

- (a) 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 ("Units") were sold at a price of \$5.27 per Unit.

Each Unit consists of one common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant") of the Company. Each Warrant shall entitle the holder thereof to acquire one common share at an exercise price per share of \$6.85 for a period of 24 months from the date of issuance.

- (b) Effective November 2018, the Company transitioned from the OTCQX to the OTCQB as a consequence of the decrease in the Company's share price on the OTCQX which resulted in the Company no longer meeting the qualification requirement that it relied on for the purposes of listing. The Company will continue to trade under the symbol "SNNVF" and it will have no effect on the reporting obligations of the Company in the United States.