

A copy of this preliminary prospectus has been filed with the securities regulatory authority in each of the provinces of British Columbia, Alberta and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

*No securities regulatory authority has expressed an opinion about any information contained herein and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions.*

The securities offered under this prospectus have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or the securities laws of any state, and may not be offered in the United States or to U.S. persons (as defined in Regulation S under the U.S. Securities Act, “**U.S. Persons**”) unless an exemption from registration is available. See “Plan of Distribution”. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy these securities in the United States or to any U.S. Person.

New Issue

PRELIMINARY PROSPECTUS

September 25, 2017



**Sunniva Inc.**

**\$6,640,332.75**

**983,753 Common Shares Issuable on Exercise of 983,753 Special Warrants**

**11,112 Common Shares Issuable on Exercise of 11,112 Corporate Finance Special Warrants**

**59,596 Broker Warrants Issuable on Exercise of 59,596 Broker Special Warrants**

This prospectus qualifies the distribution of 983,753 common shares (the “**Qualified Shares**”) of Sunniva Inc. (the “**Company**” or “**Sunniva**”) issuable for no additional consideration upon the exercise or deemed exercise of 983,753 special warrants (the “**Special Warrants**”) of the Company issued on June 27, 2017, on August 9, 2017 and on September 19, 2017, at a price of \$6.75 (the “**Offering Price**”) per Special Warrant to purchasers in British Columbia, Alberta and Ontario on a private placement basis pursuant to prospectus exemptions under applicable securities legislation (the “**Offering**”).

The Special Warrants were issued pursuant to the terms of special warrant certificates (the “**Special Warrant Certificates**”) issued by the Company and an agency agreement dated June 27, 2017 (the “**Agency Agreement**”) among the Company, Canaccord Genuity Corp. (the “**Lead Agent**”) and Beacon Securities Limited (together with the Lead Agent, the “**Agents**”). The Offering Price and the other terms of the Offering were determined by arm’s length negotiation between the Company and the Agents. See “Plan of Distribution”.

This prospectus also qualifies the distribution of 11,112 common shares of the Company (“**Corporate Finance Fee Shares**”), issuable without payment of any additional consideration upon the exercise of 11,112 corporate finance fee special warrants (the “**Corporate Finance Fee Special Warrants**”), issued pursuant to the terms of the Special Warrant Certificates and the Agency Agreement. See “Plan of Distribution”.

This prospectus also qualifies the distribution of 59,596 broker warrants of the Company (“**Broker Warrants**”), issuable without payment of any additional consideration, upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date (as defined below), of 59,596 broker special warrants (the “**Broker Special Warrants**”). Each Broker Warrant is exercisable to acquire one common share of the Company (a “**Common Share**”), subject to adjustment in certain circumstances, at the Offering Price until June 27, 2019. See “Plan of Distribution”.

**The Special Warrants are not available for purchase pursuant to this prospectus and no additional funds are to be received by the Company from the distribution of the Qualified Shares and any Additional Shares (as defined below) upon the exercise or deemed exercise of the Special Warrants.**

	<u>Price to Subscribers</u>	<u>Agents' Fee</u> <sup>(1)(2)(3)</sup>	<u>Net Proceeds to Company</u> <sup>(4)</sup>
<b>Per Special Warrant:</b>	<b>\$6.75</b>	<b>\$0.47<sup>(5)</sup></b>	<b>\$6.28<sup>(5)</sup></b>
<b>Per Special Warrant (President's List)</b>	<b>\$6.75</b>	<b>\$0.17<sup>(5)</sup></b>	<b>\$6.58<sup>(5)</sup></b>
<b>Total:</b>	<b>\$6,640,332.75</b>	<b>\$375,280.26</b>	<b>\$6,265,052.49</b>

Notes:

- (1) The Agents were paid a cash fee of 7% of the gross proceeds from the Offering, excluding proceeds received from certain "President's List" subscribers, and 2.5% of the gross proceeds from the "President's List" subscribers (the "Agents' Fee"). See "Plan of Distribution".
- (2) The Lead Agent was granted an additional corporate finance fee of \$150,000, 50% of which was paid in cash, and the other 50% was paid by issuing 11,112 Corporate Finance Fee Special Warrants to the Lead Agent. The 11,112 Corporate Finance Fee Special Warrants granted to the Lead Agent represent 1.1% of the Special Warrants distributed under the Offering. This prospectus also qualifies the distribution of the Corporate Finance Fee Shares.
- (3) The Agents, and certain registrants comprising the selling group, were also granted 59,596 Broker Special Warrants by the Company, representing 7% of the Special Warrants sold under the Offering, excluding Special Warrants sold to "President's List" subscribers, and 2.5% of the Special Warrants sold to "President's List" subscribers. Each Broker Special Warrant entitles the holder thereof to acquire, without payment of any additional consideration, upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date, one Broker Warrant. Each Broker Warrant is exercisable to acquire one Common Share, subject to adjustment in certain circumstances, at the Offering Price until June 27, 2019. This prospectus also qualifies the distribution of the Broker Warrants. See "Plan of Distribution".
- (4) After deducting the Agents' Fee, but before deducting the expenses of the Offering and the qualification for distribution of the Qualified Shares. The expenses of the Offering and the qualification for distribution of the Qualified Shares are estimated to be \$489,335, and will be paid by the Company out of the proceeds of the Offering.
- (5) Amounts are rounded to the nearest whole cent.

The following table sets out the number of compensation securities that were issued by the Company to the Agents and certain registrants comprising the selling group:

<u>Agents' Positions</u>	<u>Number of Additional Securities</u>	<u>Exercise Period</u>	<u>Exercise Price</u>
Broker Special Warrants	Broker Warrants to acquire up to 59,596 Common Shares	Exercisable on or before June 27, 2019	\$6.75 per Common Share
Corporate Finance Fee Special Warrants	11,112 Common Shares	Exercisable on or before the Deemed Exercise Date	Nil

Subject to the terms and conditions of the Special Warrant Certificates, each of the Special Warrants and the Corporate Finance Fee Special Warrants entitles the holder thereof to acquire, upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date (as defined below), one Qualified Share or one Corporate Finance Fee Share, respectively, subject to adjustment in certain circumstances, without payment of any additional consideration.

The Special Warrant Certificates provide that the Special Warrants and the Corporate Finance Fee Special Warrants will be deemed to be exercised on the earlier of (the "Deemed Exercise Date"): (i) the fifth business day after the date on which a receipt for the final prospectus of the Company qualifying the distribution of the Qualified Shares issuable on exercise of the Special Warrants (the "Final Receipt") has been issued; and (ii) October 28, 2017, at which time each Special Warrant and Corporate Finance Fee Special Warrant shall be automatically exercised into one Qualified Share or one Corporate Finance Fee Share, respectively, subject to adjustment in certain circumstances, without payment of any additional consideration and without any further action on the part of the holder. If the Final Receipt is not issued by the securities regulators in the Qualifying Jurisdictions (as defined below) on or prior to October 25, 2017 (the "Penalty Deadline"), then each Special Warrant and Corporate Finance Fee Special Warrant will be exercisable into 1.1 Qualified Shares or 1.1 Corporate Finance Fee Shares, respectively (the "Penalty Exercise Ratio"). The additional 0.1 of a Qualified Share and 0.1 of a Corporate Finance Fee Share to be issued upon the exercise or deemed exercise of each Special Warrant and Corporate Finance Fee Special Warrant, respectively, after the Penalty Deadline has passed are collectively referred to in this prospectus as the "Additional Shares". This prospectus also qualifies the distribution of any Additional Shares upon the deemed exercise of the Special Warrants and Corporate Finance Fee Special Warrants. See "Plan of Distribution".

The Special Warrants were purchased by subscribers pursuant to private placement exemptions from the prospectus requirements in the Provinces of British Columbia, Alberta, and Ontario (the "Qualifying Jurisdictions") and in jurisdictions outside of Canada in compliance with laws applicable to each such subscriber, respectively, and were issued under and are

governed by the Special Warrant Certificates. There is no market through which the Special Warrants, Corporate Finance Fee Special Warrants and the Broker Special Warrants may be sold and none is expected to develop.

The Company is neither a “connected issuer” nor a “related issuer” of the Agents as defined in National Instrument 33-105 — *Underwriting Conflicts*.

Certain legal matters in connection with the Offering are being reviewed on behalf of the Company by Borden Ladner Gervais LLP and on behalf of the Agents by McMillan LLP.

No additional proceeds will be received by the Company, and no commission or fee will be payable by the Company to the Agents, in connection with the issuance of the Qualified Shares or the Corporate Finance Fee Shares upon exercise or deemed exercise of the Special Warrants.

**Michael Barker, Luke Stanton and Todd R. Patrick, each a director of the Company, reside outside of Canada. Each of these directors has appointed Borden Ladner Gervais LLP, 1200 Waterfront Centre, 200 Burrard Street, P.O. Box 48600, Vancouver, British Columbia V7X 1T2, as agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.**

**There is currently no market through which these securities may be sold and purchasers may not be able to resell securities owned by them. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulations. See “Risk Factors”.**

**As of the date of this prospectus, the Company does not have any of its securities listed or quoted, has not applied to list or quote any of its securities, and does not intend to apply to list or quote any of its securities, on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., a U.S. marketplace, or a marketplace outside Canada and the United States of America (other than the Alternative Investment Market of the London Stock Exchange or the PLUS Markets operated by PLUS Markets Group plc).**

**The Company has applied to list the Common Shares on the Canadian Stock Exchange (the “CSE”). The listing of the Common Shares will be subject to the Company fulfilling all the listing requirements of the CSE, which cannot be guaranteed.**

**Due to the nature of the Company’s business, an investment in any securities of the Company is speculative and involves a high degree of risk that should be considered by potential investors. An investment in the Company’s securities should only be undertaken by those persons who can afford the total loss of their investment. In reviewing this prospectus you should carefully consider the matters described under the heading “Risk Factors” of this prospectus.**

**Prospective investors are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding, or disposing of Company’s securities, including the Canadian federal income tax consequences applicable to a foreign controlled Canadian corporation that acquires Company’s securities.**

**Prospective investors should rely only on the information contained in this prospectus. Neither the Agents nor the Company has authorized anyone to provide you with different information. Readers should assume that the information appearing in this prospectus is accurate only as of its date, regardless of its time of delivery. The Company’s business, financial condition, results of operations and prospects may have changed since that date.**

**This prospectus qualifies the distribution of securities of an entity that is expected to indirectly derive a portion of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. federal law. The Company is involved in the cannabis industry in the United States where local state law permits such activities, as well as the medical cannabis industry in Canada. Canada has regulated medical use and commercial activity involving cannabis and recently released Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use, with a target implementation date of no later than July 1, 2018.**

**Almost half of the U.S. states have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC.**

**Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the U.S. *Controlled Substances Act* (the “CSA”) in the United States and as**

such, may be in violation of federal law in the United States. As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which may adversely affect the current and future investments of the Company in the United States. As such, there are a number of risks associated with the Company's operations in the United States. For the reasons set forth above, the Company's operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange. See "*Risk Factors*".

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## GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise “we”, “us”, “our” or the “Company” refer to Sunniva Inc. and its direct and indirect subsidiaries.

Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary of Terms” beginning on page 91.

Readers should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with additional or different information. If anyone provides you with additional or different or inconsistent information, including information or statements in media articles about the Company, you should not rely on it. You should assume that the information appearing in this prospectus is accurate only as at its date. The Company’s business, financial conditions, results of operations and prospects may have changed since that date.

The Company presents its consolidated financial statements in Canadian dollars. Amounts in this prospectus are stated in Canadian dollars unless otherwise indicated.

### FINANCIAL STATEMENT PRESENTATION IN THIS PROSPECTUS

The following financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and are included in this prospectus. See “Financial Statements”:

1. Audited consolidated financial statements of the Company as at December 31, 2016 and December 31, 2015 and for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014 (the “**Consolidated Financial Statements**”); and
2. Unaudited interim consolidated financial statements of the Company as at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 (the “**Interim Financial Statements**”).

### FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that relate to the Company’s current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary”, “Our Business”, “Use of Available Funds”, “Management’s Discussion and Analysis” and “Risk Factors”.

In some cases, these forward-looking statements can be identified by words or phrases such as “may”, “might”, “will”, “expect”, “anticipate”, “estimate”, “intend”, “plan”, “indicate”, “seek”, “believe”, “predict” or “likely”, or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- the intention to complete the listing of the Common Shares on the CSE and all transactions related thereto
- the Company’s expectations regarding its revenue, expenses and operations
- the Company’s anticipated cash needs and its needs for additional financing
- the Company’s intention to grow the business and its operations
- expectations with respect to future production costs and capacity
- expectations with respect to the approval of the Company’s licenses
- expectations with respect to the future growth of its medical cannabis products, including delivery mechanisms
- the Company’s competitive position and the regulatory environment in which the Company operates
- any commentary related to the legalization of medical cannabis and the timing related to such legalization
- Sunniva Medical Inc.’s (“**SMT**”) intention to initiate a resubmission of its application to Health Canada for a license to grow medical cannabis
- the Company’s expectations regarding Barker Pacific Group, Inc. (“**Barker Pacific Group**”) bearing the expenses for contingencies and escalation expenses related to the construction of the Ramon Road facilities

- the Company's plans to lobby California state officials through third party lobbyists and ensure its licenses in Cathedral City are maintained in good order
- the Company's expectations regarding the entrance into a definitive lease agreement with Barker Pacific Group for the CPL Greenhouse Facility (as defined below)
- Natural Health Services Ltd.'s ("NHS") intention to expand to its call center operators by the end of the year
- the Company's expectations regarding the significant future potential of NHS
- the Company's intention to exploit opportunities for the production, processing, distribution and sale of cannabis products in the United States
- the Company's belief that it will not trigger any of the federal enforcement priorities set forth in the *Cole Memo* (as defined below)
- the Company's belief that it can use the ruling in the *McIntosh* case (as defined below) as a defense against any federal prosecution related to cannabis laws
- the Company's expectation that revenues derived from its operations will be sufficient to cover its expenses during 2017 and over the next twelve months
- the Company's expected business objectives for the next twelve months
- management's expectation that the property subject to the Goleta Facility Lease (as defined below) will be sublet by the end of Q4, 2017
- the Company's ability to obtain additional funds through the sale of equity or debt commitments
- the Company's belief that the change in venue for SMI's license to grow offers a superior location to the Merritt location.

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. In making the forward looking statements included in this prospectus, the Company has made various material assumptions, including but not limited to (i) obtaining the necessary regulatory approvals; (ii) that regulatory requirements will be maintained; (iii) general business and economic conditions; (iv) the Company's ability to successfully execute its plans and intentions; (v) the availability of financing on reasonable terms; (vi) the Company's ability to attract and retain skilled staff; (vii) market competition; (viii) the products and technology offered by the Company's competitors; and (ix) that our current good relationships with our suppliers, service providers and other third parties will be maintained. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking statements. Given these risks, uncertainties and assumptions, prospective purchasers of Common Shares should not place undue reliance on these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "*Risk Factors*", which include:

- the Company is a development stage company with little operating history, a history of losses and the Company cannot assure profitability.
- uncertainty about the Company's ability to continue as a going concern.
- the Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.
- the Company expects to incur significant ongoing costs and obligations relating to its investment in infrastructure, growth, regulatory compliance and operations.
- there are factors which may prevent the Company from the realization of growth targets.
- the Company is reliant on cultivation licenses to produce medical cannabis products in Canada and the U.S.
- the Company is subject to changes in Canadian laws regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.
- the Company's business plan involves a number of strategic partnerships. If these partnerships do not materialize, the Company may be unable to sell its products.
- the Company may not be able to develop its products, which could prevent it from ever becoming profitable.
- the Company's officers and directors control a large percentage of the Company's issued and outstanding Common Shares and such officers and directors may have the ability to control matters affecting the Company and its business.
- there is no assurance that the Company will turn a profit or generate immediate revenues.
- the Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.

- the Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the U.S.
- the Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.
- the Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition.
- the Company's operations are subject to environmental regulation in the various jurisdictions in which it operates.
- the Company faces competition from other companies where it will conduct business that may have a higher capitalization, more experienced management or may be more mature as a business.
- if the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.
- there is no assurance that the Company will obtain and retain any relevant licenses.
- failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisition.
- the size of the Company's target market is difficult to quantify and investors will be reliant on their own estimates on the accuracy of market data.
- the Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.
- the Company will continue to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.
- the Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with such insurance coverage.
- the cultivation of cannabis includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.
- the Company is currently reliant on a single location. Adverse changes affecting the Cathedral City, CA, development project could materially affect the Company's plans.
- the cultivation of cannabis involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks.
- the Company may be subject to product recalls for product defects self-imposed or imposed by regulators.
- the Company is reliant on key inputs, such as water and utilities, and any interruption of these services could have a material adverse effect on the Company's finances and operation results.
- the expansion of the medical cannabis industry may require new clinical research into effective medical therapies, when such research has been restricted in the U.S. and is new to Canada.
- under California and Canadian regulations, a licensed producer of cannabis ("LP") may have restrictions on the type and form of marketing it can undertake which could materially impact sales performance.
- the Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.
- the Company will be reliant on information technology systems and may be subject to damaging cyber-attacks.
- the Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws.
- the Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest.
- in certain circumstances, the Company's reputation could be damaged.
- some of the Company's planned business activities, while believed to be compliant with applicable U.S. state and local law, are illegal under federal law.
- there is uncertainty of existing protection from federal prosecution.
- there is uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole.
- the Company is operating at a regulatory frontier. The cannabis industry is a new industry that may not succeed.
- the Company may not be able to obtain all necessary California licenses and permits or complete construction of its facilities timely, which could, among other things, delay or prevent the Company from becoming profitable.
- regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.



- prohibition in California on “for profit” activities of the Company, on engaging in the cannabis business other than as a qualified patient member of a qualified cooperative or collective and on the non-medical use, cultivation, distribution, sale or purchase of cannabis.
- uncertain impact of SB94 (as defined below) on license to engage in commercial cannabis activity.
- no assurance of success or profitability under the new legal and regulatory structure in California.
- California Legislation states that once the regulations promulgated by the Bureau of Cannabis Control (the “**Bureau**”), and any other California state agency that may become involved, are implemented, no person can engage in commercial cannabis activity without possessing both a state license and either a local permit, license or other authorization, or otherwise in compliance with local law.
- California Legislation gives priority in respect of the issuances of licenses to facilities and entities in operation and in good standing with a local jurisdiction by September 1, 2016, which is not applicable to the Company.
- there are fees associated with acquiring, and renewing, licenses. However, the specific amount of such fees has yet to be determined and may vary based on several factors.
- applicable legislation imposes state taxes on California’s cannabis industry, and authorizes local jurisdictions to assess taxes and fees on such activities. There currently is no way to predict the tax regime that will apply when (and if) such legislation becomes effective.
- the Company may incur significant tax liabilities if the Internal Revenue Service (“**IRS**”) continues to determine that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the Internal Revenue Code of 1986, as amended (the “**Tax Code**”).
- under currently applicable law, the Company anticipates that it will be able to convert its current cooperative corporation structure into a “for-profit” corporate structure when California authorizes for-profit business cannabis activities; however, there are no assurances of what the legal climate will be in the future and if California will ever authorize such business activity.
- state and local laws and regulations may heavily regulate brands and forms of cannabis products and there is no guarantee that the Company’s proposed products and brands will be approved for sale and distribution in any state.
- the Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate.
- due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes.
- any re-classification of cannabis or changes in U.S. controlled substance laws and regulations may affect the Company’s business.
- cannabidiol (“**CBD**”) is classified as Schedule I controlled substance. The Drug Enforcement Agency (“**DEA**”) recently published a final rule in the Federal Register creating a new drug code for “marihuana extracts”.
- U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.
- the Company’s contracts may not be legally enforceable in the U.S.
- the Company cannot assure you that a market will continue to develop or exist for the Common Shares or what the market price of the Common Shares will be.
- the Company will be subject to additional regulatory burden resulting from its public listing on the CSE.
- the market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control.
- the Company is subject to uncertainty regarding Canadian legal and regulatory status and changes.
- the Company does not anticipate paying cash dividends.
- future sales of Common Shares by existing shareholders could reduce the market price of the Company’s shares.
- no guarantee on the use of available funds by the Company.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in those forward-looking statements.

Information contained in forward-looking statements in this prospectus is provided as of the date of this prospectus, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking statements or the information contained in those statements.

## **MARKET AND INDUSTRY DATA**

Unless otherwise indicated, information contained in this prospectus concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunities and market share, is based on information from independent industry organizations, other third-party sources (including industry publications, surveys and forecasts) and management studies and estimates.

Unless otherwise indicated, our estimates are derived from publicly available information released by independent industry analysts and third-party sources as well as data from our internal research, and include assumptions made by us which we believe to be reasonable based on our knowledge of our industry and markets. Our internal research and assumptions have not been verified by any independent source, and we have not independently verified any third-party information. While we believe the market position, market opportunity and market share information included in this prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of our future performance and the future performance of the industry and markets in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the heading “*Forward-Looking Statements*” and “*Risk Factors*”.

## **TRADEMARKS AND TRADE NAMES**

This prospectus includes trademarks and trade names, such as “Sunniva”, which is protected under applicable intellectual property laws and are the property of the Company. Solely for convenience, our trade-marks and trade names referred to in this prospectus may appear without the ® symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, and trade names.

## PROSPECTUS SUMMARY

The following is a summary of the principal features of this prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain capitalized terms and phrases used in this prospectus are defined in the “Glossary of Terms” beginning on page 91.

### The Company

The Company is a Canadian-based, North American biopharmaceutical company providing products and services to the medical cannabis industry in Canada and in the state of California. The Company currently provides private label medical quality vaporization devices and accessories to several large brands in the United States and offers medical clinic services to cannabis patients in Canada. It also provides software solutions to Canadian LPs that streamlines data transfer between physicians, patients and LPs. The Company further plans to develop current good manufacturing practices (“cGMP”) – compliant greenhouses in Oliver, British Columbia and Cathedral City, California to grow medical cannabis.

The Company has eleven wholly owned subsidiaries. The Company has four wholly owned Canadian subsidiaries: SMI, Sunniva Technologies Corp. (“STC”), NHS and 1964433 Alberta Ltd. (“196”). The Company, SMI and STC were incorporated under the *Canada Business Corporations Act* (the “CBCA”). NHS and 196 were incorporated under the *Business Corporations Act* (Alberta). The Company, SMI and STC are headquartered in Vancouver, British Columbia. NHS and 196 are headquartered in Calgary, Alberta.

Additionally, the Company has seven wholly owned United States subsidiaries: Sun Holdings Management, LLC (Delaware) (“SHM”), Full Scale Distributors, LLC (Florida) (“FSD”), Sunniva Full Scale Distributors Corporation (California) (“SFSD”), CP Logistics, LLC (North Carolina) (“CPL”), Sun CA Holdings, Inc. (California) (“SCH”), Sunny People, LLC (California) (“SPL”) and A1 Perez, LLC (Delaware) (“APL”). The Company has also formed an arm’s length cooperative known as California CC Growers Cooperative (“CCGC”).

See “Overview of the Company” on page 14 of this prospectus.

### Securities Outstanding:

As at September 18, 2017:

Common Shares	25,528,663
Warrants	946,614
Options	3,120,000
Special Warrants <sup>(1)</sup>	983,753
Corporate Finance Fee Special Warrants <sup>(1)</sup>	11,112
Broker Special Warrants <sup>(2)</sup>	59,596
Convertible Notes <sup>(3)</sup>	2,952,446
<b>Total (Fully Diluted)</b>	<b>33,602,184</b>

Notes:

(1) Each Special Warrant and Corporate Finance Fee Special Warrant entitles the holder thereof to acquire, upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date, one Qualified Share or Corporate Finance Fee Share, respectively, subject to adjustment in certain circumstances, without payment of any additional consideration, except if a Final Receipt is not issued by the securities regulators in the Qualifying Jurisdictions on or prior to the Penalty Deadline, in which case each Special Warrant and Corporate Finance Fee Special Warrant will be exercisable into 1.1 Qualified Shares and 1.1 Corporate Finance Fee Shares, respectively. See “Plan of Distribution”.

(2) Each Broker Special Warrant entitles the holder thereof to acquire, without payment of any additional consideration, upon exercise or deemed exercise, one Broker Warrant. Each Broker Warrant is exercisable to acquire one Common Share, subject to adjustment in certain circumstances, at the Offering Price until June 27, 2019. This prospectus also qualifies the distribution of the Broker Warrants. See “Plan of Distribution”.

(3) Issued pursuant to membership interest purchase agreements with former members of CPL and FSD. The unpaid principal balance of the CPL Notes (as defined below) plus accrued and unpaid interest (the “**CPL Conversion Amount**”) thereon is convertible, at the option of the holder of the CPL Notes, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the CPL Conversion Amount divided by USD\$2.55 (the “**Conversion Price**”). If the Common Shares are listed on the TSX Venture Exchange (“**TSX-V**”) or another Canadian securities exchange (if approved by the holders of the CPL Notes), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the CPL Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price. The unpaid balance of the FSD Note (as defined below), plus accrued and unpaid interest (the “**FSD Conversion Amount**”) thereon is convertible, at the option of the holder of the FSD Note, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the FSD Conversion Amount divided by the Conversion Price. If the Common Shares are listed on the TSX-V or another Canadian securities exchange (if approved by the holder of the FSD Note, such approval not to be unreasonably withheld), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the FSD Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price. Conversion is calculated as at August 31, 2017.

See “*Description of Share Capital*” and “*Consolidated Capitalization*” on pages 29 and 31 of this prospectus.

#### **Our Business:**

The Company, through its subsidiary SMI, has a current application for a cannabis production license in Merritt, British Columbia and has received correspondence from Health Canada indicating that SMI is in the review stage. Management intends to amend its application to change the location to Oliver, British Columbia (see “*Changes to Canadian Applications*” on page 18 of this prospectus for additional information). Additionally, Management is currently conducting a design review of the proposed greenhouse to ensure that it meets the Company’s cGMP standard and may submit an updated application upon completion of that review, which may result in additional processing time. Phase one is designed as a 400,000 sq. ft. facility.

FSD provides medical vaporization devices and accessories to its private label clients across the United States.

STC was formed to house proprietary technologies that may be developed or acquired over the course of time. STC is currently inactive.

NHS provides medical services to patients under Canada’s *Access to Cannabis for Medical Purposes Regulations* (“**ACMPR**”). Services include its medical clinics staffed by physicians and health care professionals; education programs through its brick and mortar education facilities, call centre and Internet services; and software-as-a-service solutions that connect patients, physicians and LPs.

CPL, operating in California, holds 17 medical cannabis cultivation licenses, one combination cultivation and dispensary license and one manufacturing license for the manufacture of volatile oils and extracts derived from cannabis. It is the Company’s intention to restructure this entity as a wholly owned subsidiary of SCH. CPL owns 19.13 acres of land in Cathedral City, California, acquired for the purpose of constructing a two phase cGMP-compliant, technologically advanced, greenhouse facility to grow medical cannabis. The Company and CPL have entered into a memorandum of understanding (the “**Barker MOU**”) with Barker Pacific Group for the purpose-built construction, equipping and lease-back of the facility estimated at 486,000 square feet for both phases. The total estimated capital cost of Phase I is USD\$50 million which is expected to be borne by the Barker Pacific Group.

See “*Our Business*” on page 14 of this prospectus.

## History

The Company was incorporated on August 11, 2014 for the pursuit of a cannabis cultivation license under the *Marijuana for Medical Purposes Regulations* (“**MMPR**”), the predecessor regulation to the current *ACMPR*. The Company subsequently expanded its mandate to include all medical products and services focused on the emerging cannabis markets in Canada and California. The Company’s initial goal was to develop a business model that solves various problems that appear to be widespread in the industry: high cost, low quality cannabis with high potential for pesticide and mold contamination, and the lack of scale to support a growing distribution channel.

### Canadian Cultivation

SMI applied to Health Canada for a license to grow medical cannabis under the *MMPR* on May 28, 2014. On November 15, 2016, SMI received email correspondence from Health Canada confirming SMI is in the review stage.

Due to the elapsed time of the application, the Company has developed new technologies with its greenhouse consultants (see “*California Cultivation and Manufacturing*” below). Management has initiated a design review and, depending on the outcome of the review, SMI may initiate a resubmission of its application which may result in additional processing time. Phase one is designed as a 400,000 sq. ft. facility.

### California Cultivation and Manufacturing

On November 17, 2016, the Company entered into a membership interest purchase agreement to acquire 100% of the membership units in CPL (“**CPL Units**”) for a purchase price of USD\$10 million. Consideration for the CPL Units was by payment of a USD\$400,000 cash deposit; USD\$2.6 million cash on closing; USD\$135,000 of closing reimbursements and by issuance of convertible promissory notes (the “**CPL Notes**”) totalling USD\$7 million to convert at USD\$2.55 per Common Share upon the listing of the Common Shares on the TSX-V or another Canadian securities exchange (if approved by the holders of the CPL Notes). The Company is considering alternatives to re-finance the CPL Notes.

On November 28, 2016, the Company advanced approximately USD\$1.3 million to CPL for the purchase of five acres of land in four parcels located at 69375 Ramon Road, Cathedral City, CA (“**Ramon Road**”).

On February 6, 2017, the Company made partial payment on the CPL Notes for USD\$3.0 million.

CPL’s cultivation facilities (the “**CPL Greenhouse Facility**”) have been designed in conjunction with the University of the Fraser Valley (“**UFV**”) and under the guidance of greenhouse consultant, Larssen Ltd. All CPL’s facilities are intended to be cGMP standard greenhouse facilities to assist with the efficient production of low cost, high quality medical cannabis in large scale facilities.

The CPL Greenhouse Facility has been designed in two phases. Phase I includes 246,000 square feet of greenhouse with 78,000 square feet of header house and breezeway for a total of 324,000 square feet. The CPL Greenhouse Facility is expected to produce 81,000 kg per year of dry cannabis at capacity and approximately 50% of initial production is expected to be converted into oils and extracts. Phase II is expected to increase the greenhouse by 180,000 square feet and increase production by approximately 45,000 kg per year.

On April 13, 2017, the Company entered into the Barker MOU with Barker Pacific Group for the turn-key construction and outfitting of its CPL Greenhouse Facility which includes the sale and lease back of the land, certain equipment, planning and design costs incurred prior to securing a conditional use permit (“**CUP**”). The project is contingent on the receipt of funding from the Barker Pacific Group’s investors and

bankers. Under the Barker MOU, the Company expects to sell the land for its purchase price of approximately \$6.8 million plus an additional \$2.3 million in incurred soft costs and equipment costs. Once an occupancy permit is issued, Sunniva plans to lease the facility from Barker Pacific Group for approximately USD\$8.0 million per year initially on a 15-year term with three five-year extensions.

On June 22, 2017, CPL was awarded the requested 17 cultivation licenses and one combination cultivation and dispensary license at the Ramon Road location. In addition, the Architectural Review Committee (“**ARC**”) process is complete and the final CUP hearing was held on September 20, 2017 in which the CUP was unanimously approved. Following the CUP hearing, there is a 10-day appeal period, during which time citizens of Cathedral City can appeal the grant. The appeal hearing, if required, is held by the Cathedral City council within two weeks of the end of the 10-day period.

### **Canadian Medical Clinics**

On February 8, 2017, the Company acquired 100% of the shares of NHS for total consideration of \$22.5 million. Consideration was paid in the form of \$1.5 million cash; \$18.75 million in Common Shares at USD\$2.55 per share (a total of 5,584,371 shares at \$3.36); and in a non-interest-bearing vendor note for \$2.25 million (the “**NHS Note**”) which was paid in full in August 2017.

NHS is a significant referrer of medical cannabis patients to LPs in Canada. As at June 30, 2017, NHS had 68,000 active patients. An active patient is defined by NHS as a patient that is current in all its follow-ups with its physician as required by the applicable regulations.

NHS operates three components to its business: physician supervised medical clinics; education and retail; and software-as-a-service that reduces the administration burden on both clinics and LPs.

NHS currently has five bricks and mortar medical clinics in Calgary, Edmonton, Saskatoon, Medicine Hat and Winnipeg. It also has two clinic-in-a-clinic ventures with Caleo Health in Calgary, Alberta and Packham Ave Clinic in Saskatoon, Saskatchewan. NHS currently operates in temporary locations in Windsor and Lethbridge and expects to open permanent locations in Windsor and Lethbridge by the end of Q4, 2017.

### **Medical Devices**

On February 10, 2017, the Company acquired 100% of the membership interests in FSD for consideration of \$2.0 million in cash and \$4.5 million in a secured convertible note (the “**FSD Note**”) plus an additional amount of contingent consideration.

FSD designs, manufactures through third-party manufacturers, and distributes private label electronic vaporization devices and accessories.

See “*Our Business – History*” on page 15 of this prospectus.

#### **Listing:**

**There is currently no market through which the Common Shares may be sold. Sunniva has applied to have its Common Shares listed on the CSE. The CSE has not yet approved the listing of the Common Shares. Listing will be subject to the Company fulfilling all the requirements of the CSE.**

#### **Use of Proceeds:**

The estimated net proceeds received by the Company from the Offering (after deducting the Agent’s Fee of \$375,280.26, the corporate finance fee of \$75,000 and applicable taxes thereon to be paid to the Agent in connection with the Offering and the estimated costs to complete the Offering of \$528,719) will be approximately 5,286,052.49. The net proceeds from the Offering and the Company’s cash on hand as at August 31, 2017 is approximately \$1,241,512. The Company has used, or intends to use, the net proceeds

of the Offering as follows:

(i) approximately \$5,052,000 to purchase additional 14.13 acres of land in one parcel at 69375 Ramon Road; and

(ii) approximately \$234,000 for transaction closing costs.

While the Company currently intends to use the net proceeds from the Offering for the purposes set out herein, it will have discretion in the actual application of the net proceeds, and may elect to use the net proceeds differently if the Company believes it is in its best interests to do so. The amounts and timing of the Company's actual expenditures depend on numerous factors, including the progress of the CPL Greenhouse Facility and any unforeseen cash needs. See "*Use of Proceeds*".

For a more detailed discussion on the Company's available funds, see "*Use of Proceeds*" on page 26 of this prospectus and "*Management's Discussion and Analysis*" on page 74 of this prospectus.

**Directors:**

The Board of Directors of the Company (the "**Board of Directors**") are comprised of Dr. Anthony F. Holler, Leith Pedersen, Ian Webb, Daniel Vass, Norm Mayr, Michael Barker, Luke Stanton and Todd R. Patrick.

See "*Directors and Executive Officers*" on page 36 of this prospectus

**Executive Officers:**

Dr. Anthony F. Holler, Chairman of the Board and Chief Executive Officer  
Leith Pedersen, President and Chief Strategy Officer  
Duncan Gordon, Chief Operating Officer  
R. Michael Steele, Chief Financial Officer and Executive Vice President Finance  
Hugh Ruthven, Chief Marketing Officer  
Benjamin Rootman, Vice President, Legal, Compliance and Regulatory Affairs and Corporate Secretary

See "*Directors and Executive Officers*" on page 36 of this prospectus.

**Risk Factors**

An investment in the Common Shares involves a high degree of risk. See "*Risk Factors*". You should carefully consider the information in the prospectus the information set out under "*Risk Factors*" beginning on page 55 of this prospectus.

## SUMMARY FINANCIAL INFORMATION

The following table sets out selected financial information for the periods or as of the dates indicated. The selected financial information of the Company for the six-month periods ended June 30, 2017 and 2016, and the financial years ended December 31, 2016 and 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014 has been derived from the Consolidated Financial Statements included elsewhere in this prospectus. The Consolidated Financial Statements have been audited by KPMG LLP ("KPMG"). KPMG's report on the Consolidated Financial Statements is also included elsewhere in this prospectus. The unaudited condensed interim consolidated financial information presented as at June 30, 2017 and for the three and six month periods ended June 30, 2017 and 2016 has been prepared on a basis consistent with our Consolidated Financial Statements. In the opinion of management, such unaudited financial information reflects all adjustments considered necessary for a fair presentation of the results for those periods. The summary financial information should be read in conjunction with our Management's Discussion & Analysis, Consolidated Financial Statements and Interim Financial Statements and the related notes.

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Year Ended December 31, 2016	Year Ended December 31, 2015	Period From Date of Incorporation on August 11, 2014 to December 31, 2014
	\$000	\$000	\$000	\$000	\$000
<b>Statement of Operations Highlights</b>					
Revenue	\$ 5,653	\$ -	\$ 38	\$ -	\$ -
Cost of goods sold	3,202	-	12	-	-
Gross profit	2,451	-	26	-	-
Expenses	6,246	4,491	6,059	1,853	1,235
Profit (loss) from operations	3,795	4,491	6,033	1,853	1,235
Other expenses <sup>1</sup>	8,693	84	854	60	1
Net income (loss) before tax	\$ (12,488)	\$ (4,575)	\$ (6,887)	\$ (1,913)	\$ (1,236)

### Operating Statistics

Number of active patients (000) <sup>2</sup> (NHS Canada)	68,411	-	-	-	-
Billings per active patient - NHS (\$) <sup>3</sup>	87.90	-	-	-	-
Revenue from product sales (\$000)	1,540	-	-	-	-

	As at June 30, 2017	As at Dec. 31, 2016	As at Dec. 31, 2015
	\$000	\$000	\$000
<b>Balance Sheet Highlights (at period end)</b>			
Current assets <sup>4</sup>	\$ 15,510	\$ 9,793	\$ 1,267
Total assets	60,764	25,663	1,318
Current liabilities <sup>1,5,6</sup>	25,563	11,418	2,073
Total liabilities	29,729	11,418	2,073
Shareholder's equity	\$ 31,035	\$ 14,245	\$ (755)

1. For the six months ended June 30, 2017, includes an unrealized loss of \$7,478 resulting from the fair value adjustment of USD convertible notes and a \$1,448 valuation adjustment for outstanding warrants.

2. The Company defines "active patient" as a patient who is current in quarterly follow up visits with his/her physician as required under the ACMPR.

3. "Billings" per active patient includes segmented revenue plus deferred revenue per active patient.



4. As at June 30, 2017, includes assets held for sale of \$7,722 for land, equipment and certain fees to be recovered upon completion of the Company's lease agreement at Ramon Road in Cathedral City, CA.

5. As at June 30, 2017, includes a carrying amount of \$19,461 for secured convertible promissory notes of \$17,211 and for secured promissory notes of \$2,250. As at August 31, 2017, the amount of the note obligation including accrued interest was \$9,438.

6. As at June 30, 2017, includes deferred revenue of \$1,900 resulting from the sale of software on annual contracts.

## CORPORATE STRUCTURE

### Name, Address and Incorporation

The Company was incorporated pursuant to the CBCA on August 11, 2014. The Company's articles of incorporation (the "**Articles**") were amended on August 14, 2017 to change its name from Sunniva Holdings Corp. to Sunniva Inc. and to remove certain transfer restrictions with respect to the Common Shares. See "*Description of Share Capital – Common Shares*".

The Company's registered and records office is located at 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600, Vancouver, British Columbia V7X 1T2. Our head office is located at 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600, Vancouver, British Columbia V7X 1T2.

### Intercorporate Relationships

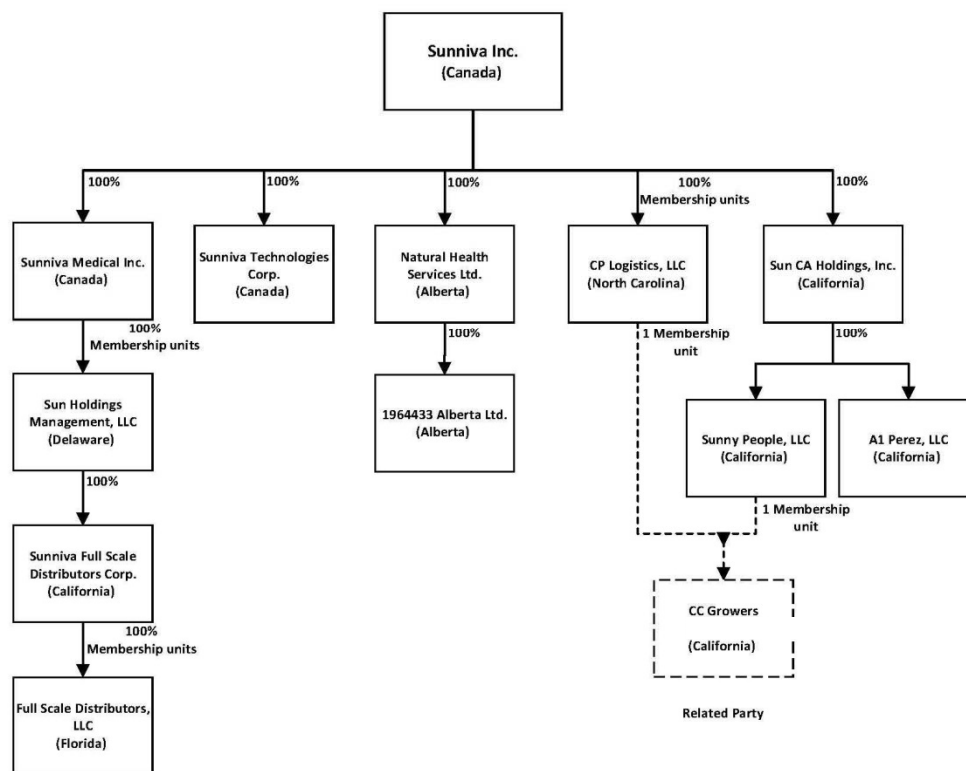
The Company has eleven wholly owned subsidiaries. This includes four wholly owned Canadian subsidiaries: SMI, STC, NHS and 196. The Company, SMI and STC were incorporated under the CBCA. NHS and 196 were incorporated under the *Business Corporations Act* (Alberta). The Company, SMI and STC are headquartered in Vancouver, British Columbia. NHS and 196 are headquartered in Calgary, Alberta. Additionally, the Company has seven wholly owned United States subsidiaries: SHM, FSD, SFDS, CPL, SCH, SPL and APL. The Company has also formed an arm's length cooperative in California, CCGC.

SMI is the predecessor company to the Company and was incorporated on February 6, 2014 by the founding shareholders, Leith Pedersen and Dr. Anthony F. Holler, as Solace Centre for Medicinal Wellness Inc. On May 5, 2014, it changed its name to Sunniva Cannabis Inc. On May 25, 2014, SMI submitted an application for a medicinal cannabis production license with Health Canada. On July 9, 2014, it changed its name to Sunniva Medical Inc. On August 11, 2014, the shareholders of SMI undertook a non-arms length transfer of 100% of the shares of SMI to the newly formed Company. Between February 6, 2014 and August 11, 2014, SMI conducted no financial activities.

The Company has also formed an arm's length cooperative, CCGC, for the purpose of growing cannabis in compliance with current California regulations. CCGC has contracts with CPL for purposes of accessing its licenses; and with SPL for management and personnel services.

Management is reviewing the current organizational structure and anticipates making changes to optimize the Company's structure from a legal and tax perspective. Management does not anticipate any of the changes to be material.

The current organizational structure of the Company and its subsidiaries is set forth below:



## OUR BUSINESS

### *Overview of the Company*

The Company is a Canadian-based, North American biopharmaceutical company providing products and services to the medical cannabis industry in Canada and California.

The Company, through its subsidiary FSD, currently provides private label medical quality vaporization devices and accessories to several large brands in the United States and through NHS, offers medical clinic services to cannabis patients in Canada. It also provides software solutions to Canadian LPs that streamlines data transfer between physicians, patients and producers, through NHS and 196. The Company further plans to develop cGMP-compliant greenhouses in British Columbia and Cathedral City, California.

SMI has a current application for a medical cannabis production license for a facility in Merritt, British Columbia and has received correspondence from Health Canada indicating that SMI’s application is in the review stage. Management intends to amend its application to change the location to Oliver, British Columbia (see “*Changes to Canadian Applications*” on page 18 of this prospectus for additional information). Management is currently conducting a technology review to ensure that the proposed facility meets the Company’s cGMP standard and may submit an updated application upon completion of that review, which may result in additional processing time.

STC was initially formed to hold proprietary technologies that may be developed or acquired over the course of time. STC is currently inactive.

NHS provides medical services to patients under ACMPR. Its services include medical clinics staffed by physicians and health care professionals; education programs through bricks and mortar education facilities, call centre and internet services; and software-as-a-service solutions that connects patients, physicians and LPs.

196 holds the intellectual property for the software solution that provides a vital information link between the Company's NHS clinics, physicians, patients and LPs in Canada. The software improves the quality of a patient's experience and reduces the administrative burden imposed by Health Canada on clinics and LPs.

CPL, operating in California, holds 17 cultivation licenses, one combination cultivation and dispensary license and one manufacturing license for the manufacture of volatile oils and extracts derived from cannabis.

CPL owns 19.13 acres of land in Cathedral City, California, acquired for the purpose of constructing a two phase cGMP-compliant, technologically advanced, greenhouse facility to grow medical cannabis. The Company and CPL have entered into the Barker MOU with Barker Pacific Group for the purpose-built construction, equipping and lease-back of the facility estimated at 486,000 square feet for both phases. The total estimated capital cost of Phase I is US\$54 million which will be borne by the Barker Pacific Group. CPL is required to obtain a CUP in order to commence construction on the project (see a detailed description starting on page 20).

SCH has been formed as the holding company for all of the Company's California operations involving the direct production, manufacturing, processing and sale of medical cannabis.

APL, a Delaware limited liability company, holds a sub-lease agreement for a facility adjacent to the Company's existing manufacturing facility on Perez Road in Cathedral City, CA, and holds a manufacturing license for cannabis oils and extracts with a CUP in place to commence tenant improvements. The Company intends to develop the facility in conjunction with its existing property on Perez Road in a contiguous manufacturing facility and plans to increase its output potential for the manufacture of cannabis oils and extracts.

SPL provides the management and staffing services to SCH and all of its subsidiaries including FSD, CPL and to the arms-length cooperative CCGC.

There have been no instances of bankruptcy, receivership or similar proceedings against the Company or any of its subsidiaries.

### ***History***

The Company was established on August 11, 2014 for the pursuit of a cultivation license under the MMPR, the predecessor regulation to the current ACMPR. The Company subsequently expanded its mandate to include all medical products and services focused on the emerging cannabis market in Canada and California. The Company's initial goal was to develop a business model that solves various problems that appear to be widespread in the industry: high cost, low quality with high potential for pesticide and mold contamination; and the lack of scale to support a growing distribution channel.

### **Changing Regulatory Landscape - Canada**

The medical cannabis industry in Canada has changed considerably between 2014 and 2017. Prior to the Company's date of incorporation, the Canadian Government introduced the MMPR. Under the MMPR, LPs were initially licensed to sell dried cannabis only, and no other forms of cannabis such as oils and extracts were permitted. The Supreme Court of Canada judgment in *R v Smith* (2015 SCC 34) found this restriction to be contrary to the Canadian Charter of Rights and Freedoms (Charter) and struck down portions of the *Controlled Drugs and Substances Act* (Canada) ("CDSA") to the extent that these portions of the CDSA prevent a person with a medical authorization from possessing cannabis derivatives for medical purposes. While *R v Smith* was considered in the context of the previous MMAR the exemption under the CDSA is equally applicable to the MMPR.

In response to *R v Smith*, Health Canada issued a class exemption under section 56 of the CDSA for LPs who met defined criteria and issued corresponding supplementary licenses for production and sale of cannabis oil to LPs who met the criteria. Health Canada released a statement with details to this effect on July 7, 2015. This Health Canada statement included requirements that essentially prevent production of cannabis oil suitable for vaporization or smoking. The only permitted dosage form for cannabis oil is a capsule or similar dosage form (sale of liquid oil in a container – i.e. no dosage form, is also permitted). The sale of foods or beverages infused with cannabis oil was not permitted under this Health Canada statement. The sale of cannabis oil, including restrictions to dosage forms, is now expressly provided for in the ACMPR.

Following the hearing of the constitutional challenge to the MMPR, the Federal Court rendered its decision on February 24, 2016 in *R v Allard* (2016 FC 236). The Court repealed the MMPR as contrary to the plaintiff's Charter rights by unduly restricting access to medical cannabis. The repeal of the MMPR was suspended for six months to allow the Government of Canada to amend the MMPR or issue new regulations. On August 24, 2016, the ACMPR came into force, replacing the MMPR as the regulations governing Canada's medical cannabis program. Under the ACMPR, patients have three options for obtaining cannabis: they can continue to access quality-controlled cannabis by registering with an LP to purchase cannabis; they can register with Health Canada to produce a limited amount for their own medical purposes; or they can designate someone else to produce it for them with starting materials – plants and seeds – obtained from an LP. Based on the Company's experience with NHS, the Company believes that less than 5% of patients initially attempt to grow their own cannabis and later decide to purchase from LPs due to the superior quality of product, dosing restrictions imposed by physicians and greater selection of strains. In general, NHS physicians prefer a reliable and consistent product that contains an appropriate mix of active ingredients suitable for each patient's unique requirements.

The ACMPR essentially combined the MMPR, the MMAR and the section 56 class exemptions relating to cannabis oil (including Health Canada's restrictions preventing smokable or vaporizable oil and preventing sale of infused foods or beverages) into one set of regulations. The ACMPR further sets out the process for license applicants, such as the Company, to obtain LP status.

### **Sunniva's Canadian Application Status**

According to Health Canada, effective May 25, 2017, there is a six-step licensing process under the ACMPR:

#### *1. Intake and Initial Screening*

When an application is received, it undergoes an assessment by Health Canada for completeness. If an application appears to be complete, it will be assigned an application number. The application number means that the application has completed the assessment. Applicants reference their application number in all correspondence with Health Canada.

The Initial Screening includes an assessment of:

- the proposed business plan;
- the Security Clearance Application Form, and
- record-keeping methods pertaining to security, Good Production Practices (“GPP”), inventory, and destruction methods.

If an application is not complete, depending on the information that is missing, applicants may be contacted by Health Canada to obtain the missing information or the application may be returned to the applicant.

SMI applied to Health Canada for a license to grow medical cannabis under the MMPR on May 28, 2014. Subsequent to the application, SMI responded to requests by Health Canada for further information with additional submissions on July 2, August 26, October 21, November 19 and December 17, 2014. It further replied to requests for information on February 20 and April 1, 2015 with a final submission on September 2, 2015.

Health Canada will also verify that applicants have provided notices to the senior officials with the local government where their proposed site is located. Local officials were notified by the Company at the proposed Merritt, British Columbia location.

On January 10, 2017, SMI entered into a Memorandum of Understanding (the “**Osoyoos MOU**”) with Osoyoos Indian Band Development Corporation (“**Osoyoos Indian Band**”) for the lease of 15 acres of land at Senkulmen Business Park located in Oliver, British Columbia for a lease term of 49 to 99 years and a lease rate to be determined based on a third-party assessment at the time of commencement. The Osoyoos MOU also contemplated a notice period from Health Canada on or before April 1, 2017. The Company currently plans to update its application with Health Canada to change the location to Oliver, British Columbia (see “*Changes to Canadian Applications*” on page 18 of this prospectus for additional

information). The Company believes the change in venue offers a superior location to the Merritt location and the support of the Osoyoos Indian Band may be helpful in processing the application.

On May 31, 2017, the Company amended the Osoyoos MOU to increase the land base to 39.2 acres; extend due diligence on the site from July 10, 2017 to September 10, 2017; and to extend the notice period from Health Canada to December 31, 2017. The due diligence period was subsequently extended to November 8, 2017.

SMI was copied on a letter from the Osoyoos Indian Band to Health Canada in support of the project on August 15, 2017. Upon acceptance of SMI's revised application, SMI plans to notify local officials in formal correspondence.

## 2. *Detailed Review and Initiation of Security Clearance Process*

All information submitted to Health Canada, and any other relevant information, is reviewed by Health Canada to:

- complete the assessment of the application to ensure that it meets the requirements of the regulations;
- establish that the issuance of the licence is not likely to create risks to public health, safety or security, including the risk of cannabis being diverted to an illicit market or use; and
- establish that there are no other grounds for refusing the application.

Health Canada thoroughly reviews the application to ensure the level of detail included in the application is sufficient to assess the requirements of the ACMPR and validate the information provided. Consideration is also given by Health Canada to the proposed security measures including those required by Subdivision C of the ACMPR and the description of the storage area for cannabis as required by the Security Directive; the credentials of the proposed quality assurance person to meet the good production requirements outlined in Subdivision D of the ACMPR; and the details listed in the quality assurance report relating to premises, equipment and sanitation program. Physical security plans are reviewed and assessed in detail at this stage.

LPs are required to comply with all applicable provincial/territorial and municipal laws, including zoning restrictions, fire and electrical safety, and environmental legislation (e.g. waste management).

When applying for a licence to produce under the ACMPR, a security clearance application form must be submitted for the following individuals:

- the proposed senior person in charge;
- the proposed responsible person in charge;
- the proposed alternate responsible person(s) in charge (if applicable);
- if a producer's licence is issued to an individual, that individual; and,
- if a producer's licence is issued to a corporation, each officer and director of the corporation.

On November 15, 2016, SMI received email correspondence from Health Canada confirming SMI is in the Detailed Review and Initiation of Security Clearance Process stage and that it has met the security clearance requirements for key personnel.

## 3. *Issuance of License to Produce*

Once Health Canada confirms that the requirements of the ACMPR have been met, and the applicant successfully completes the Detailed Review and Initiation of Security Clearance Process stage, a licence to produce will be issued. At this stage, SMI plans to commence construction of its project. Due to the long licensing period currently experienced, the Company has not included the capitalization of this plant in its working capital requirement. The facility will be financed through a combination of debt and equity if and

when the license to produce is received. SMI has not been provided with an expected time frame to receive the license to produce.

4. *Introductory Inspection (as cultivation begins)*

As part of the Terms and Conditions on the Health Canada licence, an LP is required to notify Health Canada as cultivation begins. Once notified, Health Canada will schedule an initial inspection to verify that the LP is meeting the requirements of the ACMPR including, but not limited to, the physical security requirements for the site, record-keeping practices and GPP and to confirm that the activities being conducted by the LP to those indicated on the licence.

5. *Pre-Sales Inspection*

When SMI wishes to add the activity of sale to its existing licence, an amendment application must be submitted to the Office of Medical Cannabis. Health Canada will then schedule an inspection to verify that the Company is meeting the requirements of the ACMPR including, but not limited to, GPP, packaging, labelling, shipping, and record keeping prior to allowing the sale or provision of product.

6. *Issuance of License to Sell*

To complete the assessment of the requirements of the ACMPR and establish that adding the activity of sale of cannabis products is not likely to create a risk to public health, safety or security, and to confirm that there are no other grounds for refusing the amendment application, Health Canada reviews the following information:

- results of the pre-sale inspection;
- information submitted in the amendment application to add the activity of sale to the licence; and
- any other relevant information.

When the review is completed, an amended licence, including the activity of sale, is issued to the Company. Once an amended licence is issued, the Company can begin supplying cannabis products to registered clients, other LPs and/or other parties named in subsection 22(2) of the ACMPR, depending on the activities licensed. Health Canada issues separate licences for dried marijuana, plants and/or cannabis oil.

## **Changes to Canadian Applications**

*Changes to personnel (adding new personnel or replacing individuals):*

Applications will be returned to the Detailed Review and Initiation of Security Clearance Process stage for processing.

*Changes to Quality Assurance Person or Program, record keeping method, security proposal, and/or floorplans:*

Application will be returned to the Detailed Review and Initiation of Security Clearance Process stage for assessment.

*Changes to the Company's site location/address:*

Applicants at the Detailed Review and Initiation of Security Clearance Process stage must submit a new application in its entirety for assessment; the previous application will be closed. The new application will be returned to the Detailed Review and Initiation of Security Clearance Process stage. This change may have a significant impact on processing time. Alternatively, SMI may withdraw the current application and submit the new site application. With the support of the Osoyoos Indian Band and its ACMPR consultants, the Company is evaluating its options. Irrespective, no decisions will be made until its updated package is complete in the fourth quarter of 2017.

## **Proposed Canadian Cultivation Facilities**

The contents of the SMI's submissions to Health Canada included detailed applicant information, proposed personnel, security clearance application forms, a detailed description of the activities and substances to be specified on the license, proposed site information and building details, property ownership detail, a site and physical security plan, notices to local government, police and fire authorities, a quality assurance pre-licensing report, a description of record keeping methods, and supporting appendixes.

During the Detailed Review and Initiation of Security Clearance Process stage, the application is thoroughly reviewed to validate the information provided to Health Canada. The physical security plans are also reviewed and assessed in detail. Although the application is at the Detailed Review and Initiation of Security Clearance Process stage, security clearances are not issued until SMI is licensed, which occurs following Health Canada's review of the pre-license inspection results in conjunction with all the information submitted for the application. Health Canada may also consider relevant information brought to its attention by external sources when assessing an application.

Health Canada has also stipulated that changes to the application (i.e. changes in key personnel, physical security measures, etc.) may result in additional processing time and the processing time is dependent on the quality, completeness and complexity of the application.

Due to the elapsed time of the application, the Company has developed new technologies with its greenhouse consultants (see "*California Cultivation and Manufacturing*" below). SMI has initiated a design review for its Canadian facility and, depending on the outcome of the review and the notable benefits, quality and completeness of the new design, may initiate a resubmission of its application which may result in additional processing time. Phase one is designed as a 400,000 sq. ft. facility.

As at November 15, 2016, there were more than 100 applications in the review stage and Health Canada has refrained from providing guidance on the timing for SMI to be issued a license to produce (stage 3 above).

As at May 25, 2017, Health Canada reports they have received 1,665 applications and 428 applications are in process.

## **Canadian Medical Clinics**

On February 8, 2017, the Company acquired 100% of the shares of NHS for total consideration of \$22.5 million. Consideration was paid in the form of \$1.5 million cash; \$18.75 million in Common Shares at USD\$2.55 per share (a total of 5,584,371 Common Shares at \$3.36); and the NHS Note for \$2.25 million which was fully paid on August 8, 2017.

NHS is a significant referrer of medical cannabis patients to LPs in Canada. As at June 30, 2017, NHS had 68,000 active patients and continues to grow. An active patient is defined by NHS as a patient that is current in all its follow-ups with its physician as required by the applicable regulations.

After the acquisition, NHS undertook to change its year-end to align with the Company to December 31 from June 30 and completed an audit for the six-months ended December 31, 2016. During the period, NHS acquired 196 and its software assets at an estimated fair value equal to the purchase price of \$2.5 million.

At the time of the acquisition, NHS had a net book value of \$3.5 million (unaudited). The Company subsequently undertook a third party fair value assessment of the software assets owned by NHS resulting in a fair value of \$19.6 million for the software assets. When combined, the fair value of the software asset plus the net book value resulted in a total net book value of \$20.6 million with the remaining \$1.9 million preliminarily applied to goodwill.

NHS operates three components to its business: physician supervised medical clinics; education and retail; and software-as-a-service that reduces the administration burden on both clinics and LPs.

NHS currently has five bricks and mortar medical clinics in Calgary, Edmonton, Saskatoon, Medicine Hat and Winnipeg. It also has two clinic-in-a-clinic ventures with Caleo Health in Calgary, Alberta and Packham Ave Clinic in Saskatoon, Saskatchewan. NHS currently operates in temporary locations in Windsor and Lethbridge and expects to open permanent locations in Windsor and Lethbridge by the end of Q4, 2017.



NHS fields approximately 1,000 phone calls from patients daily and operates a growing team of call centre operators out of Calgary. To meet the demands of its business, NHS plans to expand its full-time operators by the end of 2017. NHS has a backlog of patient bookings at its clinics ranging from a few weeks to three months. Additional clinics and/or capacity is planned for both Calgary and Edmonton to reduce wait times.

NHS uses a unique triage system that aims to ensure a high-quality patient experience and that patients with complex medical concerns receive the time necessary for an in-depth medical review while straight forward cases are seen expeditiously. Using this system, NHS physicians can see from 8-10 patients per hour. At an average bill rate of \$110 per patient to the Provincial Health Insurers and a 70-30 split on fees to the benefit of the physicians' results in NHS' doctors being some of the highest paid in the industry. Patients are also required to follow up with their physicians every three months under applicable regulations.

NHS does not provide an actual script to patients. Instead, a patient's script and medical documents are entered in "SPARK", NHS' proprietary and secure software platform ("SPARK"). Patients receive a personal identification number ("PIN") to access the system. With their PIN, patients have three options: enter the system from home and select an LP using NHS' on-line education platform; call the NHS contact centre and speak with an education specialist; or visit one of NHS' bricks and mortar education centres. Once a patient has selected an LP, their order and medical documents are sent securely to the LP for processing.

Using SPARK, patient wait times have been reduced from up to two weeks to same day or next day delivery of medicine. LPs benefit from a streamlined administration system, better business analytics and access to NHS' growing network of patients. LPs pay per concurrent active patient on the SPARK system or per patient that has registered and ordered products in the prior 30-day period.

### **California Cultivation and Manufacturing**

On November 17, 2016, the Company entered into a membership interest purchase agreement to acquire 100% of the CPL Units for a purchase price of USD\$10 million. Consideration for the CPL Units was by payment of a USD\$400,000 cash deposit, USD\$2.6 million cash on closing, USD\$135,000 of closing reimbursements and by the issuance of the CPL Notes totalling USD\$7 million to convert at USD\$2.55 per Common Share upon the listing of the Common Shares on the TSX-V or another Canadian securities exchange (if approved by the holders of the CPL Notes). The CPL Notes are due on December 31, 2017 and bear interest daily at 0.5% per annum. The Company is considering alternatives to re-finance the CPL Notes.

On November 28, 2016 the Company advanced approximately USD\$1.3 million to CPL for the purchase of five acres of land in four parcels located at Ramon Road.

The acquisition closed on December 15, 2016. At the time of closing, CPL held a manufacturing license for the production of cannabis oils and extracts using volatile manufacturing processes at a leased property on Perez Road in Cathedral City, CA; rights, title and interest in a purchase agreement for an additional 14.13 acres of land in one parcel at 69375 Ramon Road; and four transferable cultivation licenses.

On consolidation, the Company recognized 100% of the purchase as an acquired intangible asset which, under IFRS, is subject to periodic review for impairment. There are no indicators of impairment as at June 30, 2017.

On December 15, 2016, CPL submitted a modified plan to Cathedral City requesting additional development permits and licenses at the Ramon Road location. The amendment included a complete CUP package with environmental impact assessment, architectural renderings, engineering and other project details. It also included a request for a total of 17 cultivation and one combination cultivation and dispensary license.

The process for receiving a cultivation license in Cathedral City involves six major steps:

1. Criminal background checks.
2. Site Plan and floor plan submission for the Medical Cannabis business and security plans showing where all plants will be located.
3. Proof of the nature of the Medical Cannabis businesses organizational status including articles of incorporation, bylaws, organization minutes, material agreements, etc.

4. Current Certified Stamped (surveyor or engineer) map and straight-line drawing demonstrating the proposed facility meets all of the related setback requirements and is located in an allowable zoning area as defined by Cathedral City Ordinance #774 Amending Title 9 of the Cathedral City Municipal Code.
5. A notarized acknowledgement from the owner of the property, if, other than the applicant, that a Medical Cannabis facility will be operated on his/her property.
6. Environmental and hydrology reports.

In addition, any development in Cathedral City requires the developer go through a CUP approval process that requires the following major approvals:

1. Proposed square footage of building and supporting floor plan.
2. Building elevations and topographical mapping.
3. Color and building material sample board.
4. Parking space requirements, disclosure on number of employees and hours of operations.
5. Landscaping, grading and drainage plan.
6. Land title report (proof of ownership) and a traffic study.
7. Hydrology and environmental review.
8. Prior approval of the ARC – The ARC reviews applications and is responsible for reviewing architectural and landscaping design for all new commercial and multi-family residential projects, major commercial remodels and administrative design review applications for community suitability.

On February 6, 2017, the Company made a partial repayment on the CPL Notes for USD\$3.0 million.

On February 27, 2017, CPL received notice from Cathedral City accepting CPL's amended application for 17 cultivation licenses and one combination cultivation and dispensary license at the Ramon Road location. The letter also confirmed that CPL had received security clearance and could proceed toward receipt of its CUP.

CPL submitted revised plans on April 19, 2017 with additional information delivered on May 9, 2017 in support of its CUP application.

On May 25, 2017, Cathedral City responded with a five-page letter outlining their comments and areas for improvement in the CUP submission. The Company resubmitted on June 13, 2017 and provided a final submission after further comments on June 30, 2017.

CPL issued a request for proposal (“**RFP**”) on February 28, 2017 for the Ramon Road facilities with positive responses from multiple vendors. The Company engaged its greenhouse consultants on December 22, 2016 and, following multiple design and business requirements sessions, developed a cGMP greenhouse plan to submit for RFP.

Included in the process were extensive design meetings with potential vendors and tours of existing leading greenhouse operations in the Netherlands and California resulting in a proposed design that reflects the best practices of greenhouse operators spanning 30 years.

Using floorplans and operational designs developed in conjunction with the Company's greenhouse consultant, the RFP document included: (a) general contractor site work and electrical, concrete work, office and social rooms, chiller packages, and utilities; (b) greenhouse building details including the greenhouse building, support and construction, ventilation cover system, heating, cooling, CO2 systems, and screens; (c) water, technical and electrical systems such as the water technical installation, climate computer systems, electrical installations, grow light installations; and (d) automated table systems including support system, return gutters, table tops, equipment in the cultivation zones, empty table crane and washing machine, spacing system, and an automatic table conveyor.

The Company gathered responses for two months and short-listed respondents to 10 vendors based on recommendations from the Company's consultants. The result is a comprehensive plan that is being implemented and financed in conjunction with Barker Pacific Group.

As at the prospectus date, the Company has advanced \$2.5 million in equipment deposits and progress payments to four vendors for the greenhouse structure and installation, table systems and electrical systems. Barker Pacific Group is in negotiations to hire a general contractor from California to oversee the project.

The proposed capital budget for the facility is estimated at approximately USD\$50 million, excluding contingencies and escalation expenses, which will be borne by the Barker Pacific Group.

The CPL Greenhouse Facility has been designed in conjunction with the UFV and under the guidance of greenhouse consultants, Larssen Ltd. CPL Greenhouse Facility is intended to be cGMP standard greenhouse facility to assist with the efficient production of low cost, high quality medical cannabis in large scale facilities. Key features of the proposed greenhouse design include:

- Diffused glass provides a shadow-free growing environment for the uniform distribution of light throughout the plant canopy promoting healthier plants, higher yields and faster growth cycles.
- Customized mobile bench-top systems maximize growing space eliminating fixed pathways that restrict the square foot utilization. The system increases growing space by nearly 31% or a total floor utilization increase from 65% to 85% and up.
- Isolated growing bays with individual blackout and light subsidization capability supporting high-volume production and daily planting/harvests to ensure a patient friendly product mix.
- Specialized finishing bays to maximize resin production and drying chambers to protect essential terpenes prior to packaging/storage. Dedicated bays simulate autumn conditions with less light, lower temperature, increased humidity and less food – triggering the plants’ senescence cycle pushing nutrients from roots and leaves to the flowers. The process maximizes resin production and produces an extremely high-quality product.
- Greenhouses use microclimatic controls to ensure precise growing conditions. With sensors at various levels inside and out, CPL’s dynamic climatic control system adapts to changing conditions ensuring optimal growth conditions.
- Advanced climate controlled sensors including photosynthetic active range sensors controlling plant light and CO2 sensors/emitters ensure optimal photosynthesis.
- Pharmaceutical grade bio containment and control minimize potential for contamination or pestilence.
- Employee and personnel access control, including showers and a medical scrub program to maintain bio security. Incoming personnel pass-through a shower system, disrobing on the ‘dirty’ side and changing into medical scrubs on the ‘clean’ side.
- Airlock entry/exit points at strategic positions for incoming supplies and delivery of final product minimizing exposure to outside contaminants.
- Advanced tracking software and barcode scanning, allowing data capture to track every plant from propagation to harvest providing sophisticated business analytics to ensure consistent batch quality
- In-house quality testing in CPL’s laboratory provides near real-time plant quality/constituent information and tracks early markers for health risks such as mold or fungal contaminants.
- Commercial grade advanced irrigation systems ensure consistent nutrient delivery. Combined with the Company’s cannabis specific nutrient program the system dramatically improves crop vegetation and maturation rates.

The CPL Greenhouse Facility has been designed in two phases. Phase I includes 246,000 square feet of greenhouse with 78,000 square feet of header house and breezeway for a total of 324,000 square feet. The CPL Greenhouse Facility is expected to produce 81,000 kg per year of dry cannabis at capacity and approximately 50% of initial production is expected to be converted into oils and extracts. Phase II is expected to increase the CPL Greenhouse Facility by 180,000 square feet and increase production by approximately 45,000 kg per year.

On April 19, 2017, the Company entered into the Barker MOU with Barker Pacific Group for the turn-key construction and outfitting of its CPL Greenhouse Facility which includes the sale and lease back of the land and certain equipment, planning and design costs incurred prior to securing a CUP. The project is contingent on the receipt of funding from the Barker Pacific Group’s investors and bankers. Under the Barker MOU, the Company expects to recover the land purchase price of approximately \$6.8 million plus an additional \$2.3 million in incurred soft costs and equipment costs. Once an occupancy permit is issued, the Company plans to lease the facility from the Barker Pacific Group for approximately USD\$8.3 million per year initially on a 15-year term with three five-year extensions. The Company and Barker Pacific Group are working toward a definitive lease agreement and management expects this to be completed shortly after CUP.

On June 22, 2017, CPL was awarded the requested 17 cultivation licenses and one combination cultivation and dispensary license at Ramon Road. In addition, the ARC review meeting was held on August 9, 2017 and permission was granted to advance to the final CUP hearing. The final CUP hearing was held on September 20, 2017 in which the CUP was unanimously approved. Following the CUP hearing, there is a 10-day appeal period,

during which time citizens of Cathedral City can appeal the grant. The appeal hearing, if required, is held by the Cathedral City council within two weeks of the end of the 10 day period.

On June 23, 2017, the Company advanced \$1.3 million by way of a non-refundable deposit for the extension of its option to purchase 14.1 acres of land adjacent to its holdings on Ramon Road. On June 27, 2017, the Company exercised its option to purchase an additional 14.1 acres adjacent to its land holdings on Ramon Road in Cathedral City, California. The land was purchased for an additional \$5.0 million (total purchase price of \$6.3 million) and increased the Company's land holdings in Cathedral City to 19.1 total acres.

On August 17, 2017, the Company, through its subsidiary SCH, entered into a membership interest purchase agreement to acquire 100% of the membership units of APL. The purchase closed on August 18, 2017 for total consideration of USD\$1 million in the form of USD\$450,000 in cash and USD\$550,000 in secured promissory notes bearing interest at 0.5% interest per annum. The notes mature on the earlier of (i) December 1, 2017, (ii) upon payment of at least US\$550,000 to the Company under the Barker MOU, or (iii) within ten (10) days after a receipt is issued by the British Columbia Securities Commission for the Company's final prospectus. Perez holds a sub-lease agreement for a facility adjacent to the Company's existing manufacturing facility on Perez Road in Cathedral City, CA, and holds a manufacturing license for cannabis oils and extracts with a CUP in place to commence tenant improvements. The Company intends to develop the facility in conjunction with its existing property on Perez Road in a contiguous manufacturing facility and plans to increase its output potential for the manufacture of cannabis oils and extracts.

### **Unwound Transaction**

On January 7, 2016, the Company acquired 100% of the assets of two entities for aggregate consideration of \$12,266,000 (comprising of \$11,926,000 for the acquisition plus \$340,000 in advances for expenses) in the form of \$1,324,000 paid on behalf of the Company by a shareholder in 2015; \$170,000 paid on behalf of the Company by two directors in 2015; \$384,000 paid on behalf of the Company by a shareholder in 2016; \$550,000 paid by the Company in 2016; and \$9,838,000 paid by the issuance of 7,870,000 Common Shares (representing 40% of the then outstanding Common Shares at a deemed price of \$1.25) (the "**Unwound Transaction**").

The assets included intellectual property used for the development and manufacturing of vaporization devices and related products; inventory; manufacturing assets; and distribution contracts.

Prior to closing the Unwound Transaction, on December 16, 2015, the Company leased industrial premises at Goleta in the county of Santa Barbara, California, for the purposes of developing a device manufacturing and warehousing facility whereby the Company would utilize the acquired assets (the "**Goleta Facility Lease**"). The term of the lease commenced on March 1, 2016 and ends February 28, 2021. The Goleta Facility Lease was guaranteed by Dr. Anthony F. Holler, CEO. As at June 30, 2017, the outstanding commitment for the Goleta Facility Lease was \$1.8 million. The property is currently listed with a real estate agent and is available for sublet. Management expects it will be sublet by the end of Q4 2017.

Subsequent to the closing, the Company determined there were misrepresentations related to the quality of inventory, manufacturing assets and intellectual property that had not been identified during the due diligence process. It further determined the cash compensation paid had a very low probability of recoverability. As a result, the Company unwound the Unwound Transaction in July 2016; the Company returned the assets back to the vendors and returned the shares to treasury. The vendors retained the cash payments and those costs were expensed for accounting purposes. Legal costs of \$62,000 associated with the Unwound Transaction were also expensed.

### **Medical Devices**

On February 10, 2017, the Company acquired 100% of the membership interests in FSD for total consideration of \$6.5 million (USD\$5 million) plus an additional amount of contingent consideration. The \$6.5 million total consideration was paid \$2.0 million in cash and \$4.5 million in the form of the FSD Note.

FSD designs, manufactures through third-party manufacturers, and distributes private label electronic vaporization devices and accessories.

The FSD Note is due December 31, 2017 and bears interest at a rate of 0.74% interest per annum. The FSD Note is convertible in whole or in parts to Common Shares at a conversion price of USD\$2.55 per share. The FSD Note

automatically converts into Common Shares immediately prior to the Common Shares being listed for trading on the TSX-V or another Canadian securities exchange (if approved by the holder of the FSD Note, such approval not to be unreasonably withheld), and have been trading for a period of at least thirty trading days at an average price equal or in excess of USD\$2.55 per Common Share. The FSD Note is secured by membership interests.

### ***California and US Regulatory Issues***

The Company plans to pursue opportunities for the production, processing, distribution and sale of cannabis products in the United States. As such, management has undertaken a detailed review of the legality of its operations in the United States. At present, the cultivation, distribution, and sale of cannabis related products is illegal federally in the United States under the CSA. However, there are strong medical legalization initiatives in place across the majority of States. As of June 30, 2017, 29 states and Washington DC had medical cannabis laws in force. In Congress, this representation includes 58 of the 100 senators and 273 of the 435 voting members from the House of Representatives for total representation in Congress with enacted cannabis laws of 62%.

### **The Cole Memo**

On August 29, 2013, in response to the medical cannabis legalization initiatives in several states, the US Department of Justice (“**DOJ**”) prepared and issued the *Cole Memo* as guidance to federal prosecutors concerning medical cannabis enforcement under the CSA. The DOJ identified the most significant threats posed by cannabis activity that federal law enforcement, including in the use of federal funds, should prioritize:

- Preventing the distribution of marijuana to minors;
- Preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
- Preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity
- Preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- Preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- Preventing marijuana possession or use on federal property.

The *Cole Memo* explains that outside of the eight listed enforcement priorities, the federal government should rely upon state and local law enforcement to address cannabis activity through enforcement of each state’s respective narcotics laws. In relevant part, the *Cole Memo* states the following:

*“In jurisdictions that have enacted laws legalizing marijuana in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of marijuana in compliance with those laws and regulations is less likely to threaten the federal priorities set forth above . . . [a] robust system may affirmatively address those priorities by, for example, implementing effective measures to prevent diversion of marijuana outside of the regulated system, prohibiting access to marijuana by minors, replacing an illicit marijuana trade with a tightly regulated market in which revenues are tracked . . . [i]n those circumstances, state and local law enforcement shall remain the primary means of addressing marijuana-related activity.”*

In September, 2017, the House of Representatives approved several amendments that would attempt to block Attorney General Jeff Sessions’ civil asset forfeiture directive. The directive would expand the Department of

Justice's role in law enforcement of asset forfeiture by ending restrictions put in place by former attorney general Eric Holder on when federal law enforcement could adopt asset forfeiture cases from state and local police.

## California Regulations

Through its passage of Senate Bill No. 94 in June 2017 ("**SB94**"), the repeal of the Medical Cannabis Regulation and Safety Act and the amendment of the *Adult Use of Marijuana Act*, California has consolidated two distinct laws into a single law known as the *Medicinal and Adult-Use Cannabis Regulation and Safety Act* ("**MAUCRSA**"). As such, California has created a comprehensive regulatory framework that addresses the DOJ's priorities and governs commercial cannabis activity the same, regardless of whether it is medicinal or recreational cannabis activity.

SB94 imposes requirements to ensure medical cannabis products and revenues are not diverted to non-patients, minors, felons, and across state lines. It also requires a track-and-trace program from seed-to-sale to ensure illicit cannabis cannot enter the regulated marketplace. California's regulatory controls and system in the medical cannabis industry addresses the key federal enforcement priorities set forth in *the Cole Memo*, including preventing diversion to minors and across state lines, and preventing revenue streams to criminal enterprises.

Based on the *Cole Memo*, the Company believes California state law enforcement (and regulatory agencies) should be respected as the primary enforcer of medical cannabis regulations. The Company operates within the framework of MAUCRSA and believes it should not trigger any one of the federal enforcement priorities.

Under the new regulations, the Company will be required to pursue a state licensing in California in addition to its licenses granted by Cathedral City. In June 2017, the California Legislature passed, and the Governor signed into law, MAUCRSA, consolidating three separate regulatory bodies (the Department of Food and Agriculture, the Department of Consumer Affairs, and the Department of Public Health) into a single regulatory system for both medicinal and adult use cannabis.

The regulators are reliant on California's emergency rulemaking process for establishing new regulations which are scheduled to be published in the fall of 2017. The scheduled date for applications to be available in California is January 1, 2018. The regulators also plan to issue certain state licenses at January 1, 2018 based on a pre-approval process for existing cannabis cultivation operations. License grants depend on each applicant's compliance to municipal and county legal requirements. As the Company's cultivation facilities will not be operational until 2018, there is no guarantee the Company will receive a California State license. The Company plans to lobby strongly to state officials through third party lobbyists and ensure its licenses in Cathedral City are maintained in good order. The Company believes its value proposition of large scale, cGMP designed facility, and high-quality cannabis would provide the State of California a much-needed supply of superior products.

## United States v. McIntosh

Under the U.S. Ninth Circuit's Holding in *United States v. McIntosh* (9<sup>th</sup> Cir. 2016) ("**McIntosh**"), the DOJ is prohibited from spending federal funds to prosecute individuals whose conduct is permitted by and complies with State medical cannabis laws.

In *McIntosh*, the defendants faced federal indictments under the CSA due to their involvement in medical cannabis cultivation, manufacturing, and dispensing. The defendants challenged their indictments on the basis that such prosecution violated the Rohrabacher-Blumenauer Amendment, an omnibus appropriations bill enacted by Congress in December 2014 (the "**RBA**"), dictates the following:

*"None of the funds made available in this Act to the Department of Justice may be used with respect to the States of . . . California, . . . to prevent such States from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana."*

The Ninth Circuit, in deciding whether the prosecutions of the defendant violated the RBA, focused on the plain meaning of the specific text, specifically, "prevent such states from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana." The Ninth Court rejected the DOJ's argument that prosecuting private individuals does not prevent the medical cannabis "States from implementing their own [medical cannabis laws]." In an important and telling passage, the Court stated:

*“By officially permitting certain conduct, state law provides for non-prosecution of individuals who engage in such conduct. If the federal government prosecutes such individuals, it has prevented the state from giving practical effect to its law providing for non-prosecution of individuals who engage in the permitted conduct.”*

Thus, the Ninth Circuit concluded that, at a minimum, the RBA prohibits the DOJ from spending federal funds for the prosecution of individuals who engaged in medical commercial cannabis activity permitted by the state’s medical cannabis laws and fully complied with those medical cannabis laws.

While the Ninth Circuit’s holding is limited in geographic scope, the Company’s California operations fall under the jurisdiction of the Ninth Circuit, where the *McIntosh* case is legal precedent. The Company’s planned operations comply with MAUCRSA, pursuant to the ruling in *McIntosh*, the Company believes it can assert the ruling as a defense against any federal prosecution.

### **Extension of the RBA**

In its *McIntosh* ruling, the Ninth Circuit recognized the temporal nature of the RBA. Because it is part of an omnibus bill and is a budget rider, it must be renewed by Congress each year to remain in effect. This makes its longevity a political issue. The Ninth Circuit did indicate that this temporary lack of funding could become a more permanent lack of funds if Congress continues to include the same rider in future appropriations bills.

On July 27, 2017, the Senate Appropriations Committee approved the rider by a voice vote, indicating that it was not controversial among the panel’s members. The Committee includes 16 Republicans and rejected a recent personal plea by Attorney General Jeff Sessions to let the amendment lapse.

The political atmosphere appears to favor the continuing extension of the RBA for future spending bills, though of course no assurance can be given in this regard. The status quo has been maintained by renewing the RBA until December 8, 2017. Further, the Congressional Cannabis Caucus, a bipartisan coalition organized to promote reform in the legal cannabis industry, is advocating for the continual extension of the RBA. In April 2017, forty-four members of Congress signed a letter explicitly requesting that the RBA be included in all future spending bills. As one political commentator recently stated, the renewal of the RBA “demonstrates Congress’ recognition that marijuana is legitimate medicine and demonstrates their continued deference to the . . . states . . . which have each determined that medical marijuana is a valid form of medical treatment,” and that the renewal is evidence of Congress’ belief that states are capable of, and have demonstrated their capacity, to maintain well-regulated cannabis economies. There can be no certainty whatsoever that Congressional action will occur.

### **Equity Financings**

During the 12 months ended December 31, 2016, the Company issued Common Shares by way of a non-brokered private placement totalling \$19.9 million (the “**2016 Private Placement**”) and settled shareholder loans and debt with the issuance of Common Shares totalling \$3.0 million with share issuance costs of \$1.2 million and \$328,000 in finder’s warrants. The Company also issued \$9.8 million in Common Shares for acquisition and then recovered them during the same period in connection with the Unwound Transaction. The net capital change due to financing activities was \$21.5 million.

Subsequently, the Company issued an additional 1,373,338 Common Shares in 2017, as part of the 2016 Private Placement, totalling \$4.5 million.

In addition, the Company is conducting an ongoing non-brokered private placement of Common Shares to U.S. residents pursuant to prospectus exemptions under applicable securities legislation (the “**U.S. Private Placement**”). As at the date of this prospectus, the Company has issued 183,672 Common Shares pursuant to the U.S. Private Placement.

## **USE OF PROCEEDS**

### ***Proceeds***

The gross proceeds payable to the Company from the sale of the Special Warrants pursuant to the Offering were \$6,640,332.75. The estimated net proceeds received by the Company from the Offering (after deducting the Agent’s

Fee of \$375,280.26 the cash portion of the corporate finance fee of \$75,000 and applicable taxes thereon to be paid to the Agent in connection with the Offering and the estimated costs to complete the Offering of \$528,719) will be approximately \$5,286,052.49. The Company will not receive any additional proceeds from the Offering upon the exercise or deemed exercise of the Special Warrants.

Including the net proceeds described above, at August 31, 2017, the Company had approximately cash and cash equivalents of \$1,241,512 on hand.

The Company has used, or intends to use, the net proceeds of the Offering as follows:

<b>Item</b>	<b>Approximate Amount (000s)</b>
Exercise CPL's option to purchase an additional 14.13 acres of land in one parcel at 69375 Ramon Road. See "California Cultivation and Manufacturing".	\$5,052
Transaction closing costs	\$234
<b>Total</b>	<b>\$5,286</b>

The working capital of the Company is comprised primarily of net proceeds received from prior sales of Common Shares and cash flow from NHS. The negative working capital includes \$17.2 million in secured convertible promissory note liability and \$2.2 million in warrant liability and excludes estimated net proceeds of \$9.9 million (including assets held for sale) resulting from the Barker MOU transactions. Adjusted for the closing of the Barker MOU transaction, conversion of the CPL Notes and the FSD Note, and exercise of the Special Warrants, the adjusted working capital is \$13.0 million as at June 30, 2017.

#### **Adjusted Working Capital as at June 30, 2017**

(000s)

Current assets	\$ 15,510
Current liabilities	(25,563)
Working capital as per statement of financial position	(10,053)
Adjustments for:	
Plus: warrant liability	2,152
Plus: valuation adjustment (Note 10 of the Interim Financial Statements)	7,478
Less: Assets held for sale	(7,722)
<b>Net working capital</b>	<b>\$ - (8,145)</b>
Plus: Conversion of secured convertible debentures	9,760
Plus: Exercise of warrants	3,932
Plus: Estimated financing resulting from Barker MOU/sale of assets	9,889
<b>Adjusted working capital</b>	<b>\$15,436</b>

Funds will be used to fund business operations to the extent that revenues from operations are insufficient to cover operating expenses. The Company anticipates that its expenses for the next 12 months, based on current operations, to be in the approximate amount of \$5.2 million. These expenses do not take into account any increase in earnings during that period. The Company anticipates that cash flow derived from operations will be sufficient to cover its expenses during the fourth quarter of 2017 and thereafter for the next twelve months. If such revenues do not exceed the Company's anticipated expenses for the next 12 months, the Company expects its working capital position can cover such shortfall without any additional debt or equity financing being required. The Company will continue to assess the necessity for debt or equity financing as it proceeds with the development of its business. The Company may, from time to time, determine to develop new capital projects, acquisitions, new products or services or to expand its operations beyond the scope that is presently contemplated. Such determinations could result in the Company requiring or determining to seek new financing in order to finance such undertakings.



### ***Significant Events, Milestones or Objectives***

The primary business objectives for the Company over the next 12 months are:

- 1) Break ground, commence construction and commence operations of CPL's Cathedral City cultivation development (anticipated in Q4 2017 for an estimated cost of USD\$50 million funded 100% by Barker Pacific Group);
- 2) Initiate manufacturing of cannabis oils and extracts at CPL's Perez Road facility (anticipated in Q4 2017 for an estimated capital and initial working capital cost of \$1.1 million);
- 3) Expansion of NHS to nine locations with 23 full-time equivalent physicians (anticipated in Q3-4, 2017 for an estimated cost of \$1.2 million funded through operating cash flow);
- 4) Commence operations of CPL's Cathedral City cultivation development (anticipated in Q2, 2018 for an additional estimated cost of approximately \$6.8 million in initial working capital); and
- 5) Advancing the Canadian licensing application process at an estimated cost of \$500,000.

Significant events that need to occur for the business objectives to be accomplished:

- 1) For CPL's cultivation facility
  - a. Closing of the Barker Pacific Group facility financing
    - i. Execution of a definitive lease agreement
    - ii. Completion of a fixed cost contract between Barker Pacific Group and its various contractors
    - iii. Funding of the project by Barker Pacific Group's investors and bankers
- 2) For the initiation of oils and extracts manufacturing at CPL's Perez Road facilities
  - a. Update of the facilities lease agreement to be compliant with state and local regulations pertaining to the volatile manufacturing of cannabis extracts
  - b. Completion of the equipment purchase and financing
  - c. Recruitment of cannabis extracts technical personnel
- 3) For the NHS expansion
  - a. Open new medical clinics with supporting education infrastructure in Canada
  - b. Recruit 16 additional full-time-equivalent physicians
- 4) For the commencement of operations at CPL's cultivation facility
  - a. Material completion of construction by Barker Pacific Group
  - b. Delivery of an occupancy permit by Cathedral City
  - c. Granting of a standard business license from Cathedral City
  - d. Recruitment of initial 16 team members to commence operations
  - e. Secure additional working capital

There can be no assurances the above objectives will be completed. See "*Risk Factors*".

### **DIVIDEND POLICY**

The Company has not declared dividends on our Common Shares in the past. The Company currently intends to reinvest all future earnings in order to finance the development and growth of the business. As a result, the Company does not intend to pay dividends on their Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends and any other factors that the Board of Directors deems relevant.

## OUTSTANDING SECURITY DATA

As at September 18, 2017, the following securities were outstanding:

Common Shares	25,528,663
Warrants	946,614
Options	3,120,000
Special Warrants <sup>(1)</sup>	983,753
Corporate Finance Fee Special Warrants <sup>(1)</sup>	11,112
Broker Special Warrants <sup>(2)</sup>	59,596
Convertible Notes <sup>(3)</sup>	2,952,446
<b>Total (Fully Diluted)</b>	<b>33,602,184</b>

Notes:

- (1) These Special Warrants and Corporate Finance Fee Special Warrants were issued in connection with the Offering. Each Special Warrant and Corporate Finance Fee Special Warrant entitles the holder thereof to acquire, upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date, one Qualified Share or one Corporate Finance Fee Share, respectively, subject to adjustment in certain circumstances, without payment of any additional consideration, except if a Final Receipt is not issued by the securities regulators in the Qualifying Jurisdictions on or prior to the Penalty Deadline, in which case each Special Warrant and Corporate Finance Fee Special Warrant will be exercisable into 1.1 Qualified Shares and 1.1 Corporate Finance Fee Shares, respectively. Assuming an exercise on a one-to-one basis, the exercise of 983,753 Special Warrants and 11,112 Corporate Finance Fee Special Warrants would result in the issuance of an additional 983,753 Qualified Shares and 11,112 Corporate Finance Fee Shares. Assuming an exercise on the basis of the Penalty Exercise Ratio, the exercise of 983,753 Special Warrants and 11,112 Corporate Finance Fee Special Warrants would result in the issuance of an additional 1,082,128 Qualified Shares and 12,223 Corporate Finance Fee Shares.
- (2) Issued to the Agents and certain registrants comprising the selling group in connection with the Offering. Each Broker Special Warrant entitles the holder thereof to acquire, without payment of any additional consideration, upon exercise or deemed exercise, one Broker Warrant. Each Broker Warrant is exercisable to acquire one Common Share, subject to adjustment in certain circumstances, at the Offering Price until June 27, 2019.
- (3) Issued pursuant to membership interest purchase agreements with former members of CPL and FSD. The CPL Conversion Amount of the CPL Notes is convertible, at the option of the holder of the CPL Notes, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the CPL Conversion Amount divided by the Conversion Price. If the Common Shares are listed on the TSX-V or another Canadian securities exchange (if approved by the holders of the CPL Notes), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the CPL Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price. The FSD Conversion Amount of the FSD Note is convertible, at the option of the holder of the FSD Note, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the FSD Conversion Amount divided by the Conversion Price. If the Common Shares are listed on the TSX-V or another Canadian securities exchange (if approved by the holder of the FSD Note, such approval not to be unreasonably withheld), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the FSD Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price. Conversion is calculated as at August 31, 2017.

## DESCRIPTION OF SHARE CAPITAL

The prospectus is being filed for the purpose of qualifying the distribution of 983,753 Common Shares, which are to be issued upon the exercise or deemed exercise of the Special Warrants, 11,112 Common Shares, which are to be issued upon the exercise or deemed exercise of the Corporate Finance Fee Special Warrants and 59,596 Broker Warrants, which are to be issued upon the exercise or deemed exercise of the Broker Special Warrants.

### *Common Shares*

The authorized capital of the Company consists of an unlimited number of Common Shares without par value. As of the date of this prospectus, 25,528,663 Common Shares were issued and outstanding as fully paid and non-assessable.

Holders of Common Shares are entitled to receive notice of, attend and vote at meetings of the shareholders (other than meetings at which only holders of another class or series of shares are entitled to vote separately as a class or series). Each Common Shares carries the right to one vote. The holders of Common Shares are entitled to receive any dividends declared by the Company in respect of the Common Shares, subject to the rights, privileges, restrictions and conditions attaching to any other class or series of shares ranking in priority to the Common Shares with respect of the payment of dividends. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, holders of Common Shares are also entitled to receive, on a *pro rata* basis, the remaining property and assets of the Company available for distribution after payment of all of its liabilities and subject to the rights of the holders of any other class of shares ranking in priority to the Common Shares. The Common Shares do not have pre-emptive rights, conversion rights or exchange rights and are not subject to redemption, retraction, purchase for cancellation or surrender provisions. There are no sinking or purchase fund provisions, no provisions permitting or restricting the issuance of additional securities or any other material restrictions, and there are no provisions which are capable of requiring a security holder to contribute additional capital. For a description of the Company's dividend policy, see "*Dividend Policy*".

Provisions as to the modification, amendment or variation of the rights attached to the Common Shares are contained in the Company's bylaws and the CBCA. Generally speaking, substantive changes to the authorized share structure require the approval of our shareholders by special resolution (at least two-thirds of the votes cast).

### ***Broker Warrants***

The Broker Warrants will be created and issued pursuant to broker warrant certificates ("**Broker Warrant Certificates**") issued by the Company. Each Broker Warrant will be exercisable by the holder thereof to acquire one Common Share at a price of \$6.75 at any time up to 4:00 p.m. (Vancouver time) on June 27, 2019, after which time the Broker Warrants will expire and become null and void.

The following summary of certain provisions of the Broker Warrant Certificates does not purport to be complete and it is qualified in its entirety by reference to the provisions of the Broker Warrant Certificates.

The Broker Warrant Certificates will provide for adjustments in the exercise price and the number of Common Shares issuable upon the exercise of the Broker Warrants upon the occurrence of certain events, including the issuance of Common Shares or securities exchangeable or convertible into Common Shares as a stock dividend, the subdivision, re-division, reduction, combination or consolidation of the Common Shares, the issuance of rights, options or warrants to substantially all of the holders of Common Shares that entitle them to subscribe for Common Shares and the merger, sale or conveyance of all or substantially all of the assets of the Company, other than to one of its subsidiaries.

The Broker Warrant Certificates will also provide for adjustments in the class and/or number of Common Shares issuable upon the exercise of the Broker Warrants and/or exercise price per security in the event of any of the following additional events: (i) reclassifications of the Common Shares; or (ii) consolidations, amalgamations, plans of arrangement or mergers of the Company with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Common Shares or a change of the Common Shares into other shares).

No adjustment in the exercise price or the number of Common Shares issuable upon exercise of the Broker Warrants will be required to be made unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 5% or the number of Common Shares purchasable upon exercise by at least one one-hundredth of a Common Share.

The Company will covenant in the Broker Warrant Certificates that, during the period in which the Broker Warrants are exercisable, it will give notice to the holders of the Broker Warrants of certain stated events, including events that would result in an adjustment to the exercise price for the Broker Warrants or the number of Common Shares issuable upon exercise of the Broker Warrants, at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Common Shares will be issuable upon the exercise of any Broker Warrants, and no cash or other consideration will be paid in lieu of fractional Common Shares. Holders of Broker Warrants will not, by virtue of holding such Broker Warrants, have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

## DESCRIPTION OF MATERIAL INDEBTEDNESS

The Company's material indebtedness incurred resulting from two acquisitions includes the following:

The CPL Notes and the FSD Note, issued pursuant to membership interest purchase agreements with former members of CPL and FSD, with outstanding balances of USD\$4,000,000 and USD\$3,500,000; respectively.

The CPL Conversion Amount of the CPL Notes is convertible, at the option of the holder of the CPL Notes, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the CPL Conversion Amount divided by the Conversion Price. If the Common Shares are listed on the TSX-V or another Canadian securities exchange (if approved by the holder of the CPL Note), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price. The CPL Notes are due December 31, 2017. The Company is considering alternatives to re-finance the CPL Notes.

The FSD Conversion Amount of the FSD Note is convertible, at the option of the holder of the FSD Note, into a number of fully paid and non-assessable Common Shares (rounded up to the nearest whole share) equal to the FSD Conversion Amount divided by the Conversion Price. If the Common Shares are listed on the TSX-V or another Canadian securities exchange (if approved by the holder of the FSD Note, such approval not to be unreasonably withheld), and have been trading for a period of at least thirty (30) trading days at an average price equal to or in excess of the Conversion Price per Common Share, the Conversion Amount will automatically convert into Common Shares, rounded up to the nearest whole share, at a price equal to the Conversion Price.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the Company's cash, cash equivalents and short-term investments and capitalization as of June 30, 2017 on an actual basis and as adjusted to give effect to the 183,672 Common Shares issued under the U.S. Private Placement to the date of this prospectus and the Common Shares issuable pursuant to this Offering after deducting the Agent's Fee and estimated Offering expenses, as though they had occurred on such date. This table should be read in conjunction with the Interim Financial Statements as at June 30, 2017 and accompanying notes, which appear elsewhere in this prospectus.

	As at June 30, 2017	Adjusted to give effect to the Offering and the deemed exercise of the Special Warrants and the Corporate Finance Fee Special Warrants	Adjusted to give effect to the Offering, the deemed exercise of the Special Warrants and the Corporate Finance Fee Special Warrants and the U.S. Private Placement
	(\$)	(\$)	(\$)
Cash and cash equivalents	4,301	4,960	6,202
Debt (including current maturities)			
Convertible notes	17,211	17,211	17,211
Notes	2,250	2,250	2,250
Warrant liability	2,152	2,152	2,152
Total Debt	21,613	21,613	21,613
Total Equity	31,035	31,694	32,936
<b>Total Capitalization</b>	<b>52,648</b>	<b>53,307</b>	<b>54,549</b>

## OPTIONS TO PURCHASE COMMON SHARES

### *Options*

The Board of Directors has established a stock option plan (the "**Stock Option Plan**"), under which options may be granted to the Company's and its subsidiaries directors, officers, employees and consultants. For a summary of the

terms of the Stock Option Plan, see “*Executive Compensation — Compensation Discussion and Analysis – Stock Option Plan*.”

As at September 18, 2017, 3,120,000 options were granted and outstanding under the Stock Option Plan. The following table sets out information regarding the outstanding options to purchase Common Shares as of the date of this prospectus. The maximum number of Common Shares which may be issued pursuant to options granted under the Stock Option Plan at any point in time is 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.

Holder of Options	Number of Optionees	Common Shares Underlying Options <sup>(1)</sup>	Exercise Price	Expiry Date
Executive Officers and Former Executive Officers.....	5	1,100,000	\$3.40	April 13, 2027
	1	100,000	\$3.40	April 13, 2019
	1	120,000	\$6.75	August 14, 2027
Directors (other than those who are also executive officers) and Former Directors	5	650,000	\$3.40	April 13, 2027
	1	100,000	\$3.40	June 15, 2027
Other Current and Former Employees.....	3	200,000	\$3.40	April 13, 2027
	2	100,000	\$6.75	July 4, 2027
Current and Former employees of subsidiaries of the Company.....	5	500,000	\$3.40	April 13, 2027
	1	50,000	\$6.75	July 31, 2027
	1	50,000	\$6.75	September 11, 2027
Consultants .....	2	100,000	\$3.40	April 13, 2027
	1	50,000	\$6.75	August 25, 2027
Total .....		<b>3,120,000</b>		

Note:

- (1) With the exception of 100,000 granted to a former executive officer of the Company that vested immediately upon granting, the options will vest as follows: 1/16 of the options shall vest on each of the subsequent three-month anniversaries of the Grant Date (as that term is defined in the Stock Option Plan) until all such options have vested.

### **Warrants**

In connection with prior financings, the Company has issued warrants to purchase Common Shares, the terms of which are set forth in the following table.

Number of Warrants	Shares Underlying Warrants	Exercise Price	Expiry Date	Number of Common Shares into which Warrant may be Exercised	Effective Exercise Price per Common Share
38,941	Common Shares	\$3.40	December 20, 2017	38,941	\$3.40
289,298	Common Shares	\$3.40	December 28, 2017	289,298	\$3.40
14,525	Common Shares	\$3.40	February 7, 2018	14,525	\$3.40
3,850	Common Shares	\$3.40	February 7, 2018	3,850	\$3.40
100,000	Common Shares	USD\$2.55	April 12, 2019	100,000	USD\$2.55
100,000	Common Shares	USD\$2.55	May 1, 2019	100,000	USD\$2.55
100,000	Common Shares	\$3.40	June 15, 2019	100,000	\$3.40
300,000	Common Shares	USD\$2.55	July 19, 2019	300,000	USD\$2.55

### ***Convertible Notes***

The Company has issued convertible notes, the terms of which are set forth in the following table:

<b>Date of Issuance</b>	<b>Principal Amount</b>	<b>Exercise Price per Common Share</b>	<b>Expiry Date</b>
December 15, 2016 <sup>(1)</sup>	USD\$7,000,000	USD\$2.55	December 31, 2017
February 10, 2017	USD\$3,500,000	USD\$2.55	December 31, 2017

Note:

- (1) Outstanding balance as at the date of this prospectus is USD\$4,000,000

### **PRIOR SALES**

The following table summarizes details of the securities issued by the Company during the 12-month period prior to the date of this prospectus.

#### ***Common Shares***

<b>Date of Issuance</b>	<b>Description of Security</b>	<b>Price per Security</b>	<b>Number of Securities</b>
November 23, 2016	Common Shares <sup>(1)</sup>	\$3.40/USD\$2.55	451,124
November 23, 2016	Common Shares <sup>(2)</sup>	\$3.40/USD\$2.55	585,932
November 28, 2016	Common Shares <sup>(1)</sup>	\$3.40	500,000
November 30, 2016	Common Shares <sup>(1)</sup>	\$3.40	313,700
November 30, 2016	Common Shares <sup>(1)</sup>	USD\$2.55	20,392
December 14, 2016	Common Shares <sup>(1)</sup>	\$3.40	1,460,653
December 14, 2016	Common Shares <sup>(1)</sup>	USD\$2.55	30,000
December 20, 2016	Common Shares <sup>(1)</sup>	\$3.40	557,300
December 20, 2016	Common Shares <sup>(1)</sup>	USD\$2.55	6,921
December 29, 2016	Common Shares <sup>(1)</sup>	\$3.40	1,729,987
December 29, 2016	Common Shares <sup>(1)</sup>	USD\$2.55	245,300
February 7, 2017	Common Shares <sup>(1)</sup>	\$3.40	272,555
February 7, 2017	Common Shares <sup>(1)</sup>	USD\$2.55	1,081,175
February 8, 2017	Common Shares <sup>(3)</sup>	USD\$2.55	5,584,371
April 11, 2017	Common Shares <sup>(1)</sup>	USD\$2.55	19,608
June 22, 2017	Common Shares <sup>(2)</sup>	USD2.91	114,325
September 19, 2017	Common Shares <sup>(4)</sup>	CDN\$6.75	183,672

Notes:

- (1) Issued pursuant to the 2016 Private Placement at a price of \$3.40 or USD\$2.55.  
(2) Issued pursuant to certain loans owed by the Company.  
(3) Issued pursuant to the share purchase agreement with the shareholders of NHS to acquire all of the outstanding shares of NHS.  
(4) Issued pursuant to the U.S. Private Placement at a price of \$6.75.

#### ***Stock Options***

<b>Date of Issuance</b>	<b>Description of Security</b>	<b>Price per Security</b>	<b>Number of Securities</b>
April 13, 2017	Stock Options	\$3.40	2,650,000
June 15, 2017	Stock Options	\$3.40	100,000
July 4, 2017	Stock Options	\$6.75	100,000
July 31, 2017	Stock Options	\$6.75	50,000
August 14, 2017	Stock Options	\$6.75	120,000
August 25, 2017	Stock Options	\$6.75	50,000
September 11, 2017	Stock Options	\$6.75	50,000

## Warrants

<u>Date of Issuance</u>	<u>Description of Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
December 20, 2016	Warrants <sup>(1)</sup>	\$3.40	38,941
December 29, 2016	Warrants <sup>(1)</sup>	\$3.40	289,298
December 29, 2016	Warrants <sup>(1)</sup>	USD\$2.55	100,000
December 29, 2016	Warrants <sup>(1)</sup>	USD\$2.55	100,000
December 29, 2016	Warrants <sup>(1)</sup>	USD\$2.55	300,000
February 7, 2017	Warrants <sup>(1)</sup>	\$3.40	14,525
February 8, 2017	Warrants <sup>(1)</sup>	\$3.40	3,850
June 22, 2017	Warrants <sup>(2)</sup>	\$3.40	100,000

Notes:

- (1) Issued as a finder's fee to Haywood Securities Inc., the Lead Agent and GMP Securities L.P. under the 2016 Private Placement.
- (2) Issued to Bloom Burton Securities Inc. as compensation for financial advisory services.

## Special Warrants

<u>Date of Issuance</u>	<u>Description of Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
June 27, 2017	Special Warrants <sup>(1)</sup>	\$6.75	866,900
June 27, 2017	Corporate Finance Fee Special Warrants <sup>(2)</sup>	\$6.75	11,112
August 9, 2017	Special Warrants <sup>(1)</sup>	\$6.75	57,853
September 19, 2017	Special Warrants <sup>(1)</sup>	\$6.75	59,000

Notes:

- (1) The Company issued an aggregate of 983,753 Special Warrants in connection with the Offering. See "Plan of Distribution".
- (2) Issued to the Agents in connection with the Offering. See "Plan of Distribution".

## Broker Special Warrants

<u>Date of Issuance</u>	<u>Description of Security</u>	<u>Price per Security</u>	<u>Number of Securities</u>
June 27, 2017	Broker Special Warrants <sup>(1)</sup>	\$6.75	51,683
August 9, 2017	Broker Special Warrants <sup>(1)</sup>	\$6.75	3,783
September 19, 2017	Broker Special Warrants <sup>(1)</sup>	\$6.75	4,130

Note:

- (1) Issued to the Agents and certain registrants comprising the selling group in connection with the Offering. The Broker Warrants issued on exercise or deemed exercise of the Broker Special Warrants have an exercise price of \$6.75 per Common Share. See "Plan of Distribution".

## Convertible Notes

<u>Date of Issuance</u>	<u>Description of Security</u>	<u>Price per Security</u>	<u>Principal Amount</u>
December 15, 2016	Convertible Notes <sup>(1)</sup>	USD\$2.55	USD\$4,000,000
February 10, 2017	Convertible Notes <sup>(2)</sup>	USD\$2.55	USD\$3,500,000

Notes:

- (1) Issued pursuant to the membership interest purchase agreement to acquire 100% of the CPL Units.
- (2) Issued pursuant to the membership interest purchase agreement to acquire 100% of the membership interests in FSD.

## ESCROWED SECURITIES

As at the date of this prospectus, the securities expected to be subject to escrow upon completion of the listing of the Common Shares on the CSE are shown in the following table:

<b>Designation of Class</b>	<b>Total Number of securities held in escrow or that are subject to a contractual restriction on transfer</b>	<b>Percentage of Class at the date of prospectus</b>
Common Shares	760,863	29.62%

A detailed breakdown of the securities to be escrowed is shown in the following table:

<b>Name</b>	<b>Designation of Class</b>	<b>Quantity</b>	<b>Percentage of Class at the date of prospectus</b>
Dr. Anthony F. Holler	Common Shares	2,882,612	11.29%
Leith Pedersen	Common Shares	4,678,251	18.33%

Section 3.5 of National Policy 46-201 – *Escrow for Initial Public Offerings* (“NP 46-201”) provides that all shares of a company owned or controlled by a Principal (as defined in NP 46-201) will be escrowed at the time of the Company’s initial public offering, unless the shares held by the Principal or issuable to the Principal upon conversion of convertible securities held by the Principal collectively represent less than 1% of the total issued and outstanding shares of the Company after giving effect to the initial public offering.

At the time of its initial public offering, an issuer will be classified for the purposes of escrow as either an “exempt issuer”, an “established issuer” or an “emerging issuer”, as those terms are defined in NP 46-201.

Uniform terms of automatic timed release apply to Principals of exchange listed issuers, differing only according to the classification of the issuer. The Company anticipates that it will be classified as an “emerging issuer”. As such, the Company anticipates that the following automatic timed releases will apply to the securities held by the Principals listed in the table above:

<b>Date of Automatic Timed Release</b>	<b>Amount of Escrowed Securities Released</b>
On the date the Company’s securities are listed on a Canadian Exchange	1/10 of the escrow securities
6 months after the listing date	1/6 of the remaining escrow securities
12 months after the listing date	1/5 of the remaining escrow securities
18 months after the listing date	1/4 of the remaining escrow securities
24 months after the listing date	1/3 of the remaining escrow securities
30 months after the listing date	1/2 of the remaining escrow securities
36 months after the listing date	The remaining escrow securities

### **TRADING PRICE AND VOLUME**

The Common Shares were not previously traded on any market or exchange.



## PRINCIPAL SHAREHOLDERS

As of the date of this prospectus, to the knowledge of the directors and executive officers of the Company, no person beneficially owns or exercises control over direction over Common Shares carrying more than 10% of the votes attached to Common Shares except for the following:

Name	Type of Ownership	Number and Type of Securities Owned	Percentage of Outstanding Shares <sup>(1)</sup>	Percentage of Outstanding Shares on a Fully Diluted Basis <sup>(2)</sup>
Leith Pedersen	Beneficial and of record	4,678,251 Common Shares	18.33%	13.92%
Dr. Anthony F. Holler	Beneficial and of record	2,882,612 Common Shares	11.29%	8.58%

Notes:

- (1) Based on 25,528,663 outstanding Common Shares at the date of this prospectus.
- (2) Based on 33,602,184 outstanding Common Shares on a fully diluted basis, assuming the exercise of all outstanding options, warrants, 983,753 Special Warrants, 11,112 Corporate Finance Fee Special Warrants, 59,596 Broker Special Warrants, the exercise of 59,596 Broker Warrants, each on a one to one basis, and the conversion of all convertible notes. If the Company has not received the Final Receipt for this prospectus issued by the securities regulators in the Qualifying Jurisdictions on or prior to the Deemed Exercise Date, the Special Warrants will be exercisable on the basis of the Penalty Exercise Ratio. Assuming the exercise of all outstanding options, warrants, and 59,596 Broker Special Warrants, the exercise of 59,596 Broker Warrants, each on a one to one basis, and the exercise of 983,753 Special Warrants and 11,112 Corporate Finance Fee Special Warrants on the basis of the Penalty Exercise Ratio and the conversion of all convertible notes, there will be 33,701,670 outstanding Common Shares on a fully diluted basis and accordingly, the percentage of outstanding Common Shares on a fully diluted basis will be, (i) for Leith Pedersen, 13.88%, and (ii) for Dr. Anthony F. Holler, 8.55%.

## DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out, for each of our directors and executive officers, the person's name, age, province or state and country of residence, position with us, principal occupation and, if a director, the date on which the person became a director. Our directors are expected to hold office until our next annual general meeting of shareholders. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders. As a group, the directors and executive officers beneficially own, or control or direct, directly or indirectly, a total of 9,177,395 Common Shares, representing 35.95% of the Common Shares outstanding as at the date of this prospectus. This calculation does not include the 3,703 Special Warrants that were purchased by directors and executive officers under the Offering.

### *Directors and Executive Officers*

Name and Province or State and Country of Residence	Age	Position with the Company	Director/Officer Since	Principal Occupation
Dr. Anthony F. Holler Vancouver, British Columbia, Canada	66	Chief Executive Officer, Chairman of the Board and Director	August 11, 2014	Dr. Holler has been President of Poplar Grove Winery since 2007 and is the Chairman of CRH Medical Corp. ("CRH"). Dr. Holler was one of the founders of ID Biomedical Corporation ("ID Biomedical") and held a number of executive positions with ID Biomedical including Chief Executive Officer and Director. Dr. Holler resigned from ID Biomedical upon the completion of ID Biomedical's acquisition by

				GlaxoSmithKline, Inc. (“ <b>GSK</b> ”). Prior to founding ID Biomedical, Dr. Holler served as an emergency physician at University Hospital at the University of British Columbia.
Leith Pedersen Kelowna, British Columbia, Canada	45	President, Chief Strategy Officer and Director	August 11, 2014	Mr. Pedersen was an Investment Advisor at Canaccord Wealth Management (2012-2014), former owner and Chief Executive Officer of Vida Wealth Management Bahamas (2008-2011) and former Partner and Director at an independent brokerage firm in Calgary, Alberta that managed capital in excess of \$3 billion for high net worth clients.
Ian Webb <sup>(1)(2)(3)(5)</sup> Vancouver, British Columbia, Canada	66	Director	August 11, 2014	Mr. Webb has been retired since December 31, 2010. Prior to that, he was a partner of the law firm of Borden Ladner Gervais LLP. His practice focused on corporate and securities law with an emphasis on the legal requirements of public companies.
Daniel Vass Terrace, Cochrane, Alberta, Canada	35	Director	February 8, 2017	Mr. Vass is the President of NHS since inception in 2015. Prior thereto, he was the Vice President of Operations for Contract Land Staff LLC (a provider of land management & right of way services) from 2012 -2015 and the President of Dayzon Energy Solutions Inc. from 2009 – 2012.
Norm Mayr <sup>(1)(2)(3)(4)</sup> Vancouver, British Columbia, Canada	62	Director	July 27, 2017	Mr. Mayr has been retired since October 2016. Prior to that he was an Audit Partner having spent 38 years in public practice with KPMG.
Michael Barker Los Angeles, California, USA	72	Director	July 27, 2017	Mr. Barker is the CEO and founder of Barker Pacific Group, a real estate development company based in Los Angeles operating for more than 30-years.
Luke Stanton Los Angeles, California, USA	36	Director	July 27, 2017	Mr. Stanton is the Founder, Executive Chairman and an attorney at law at Frontera Law Group (a cannabis business specialty law firm) (“ <b>Frontera</b> ”) operating since 2015. He is also a Partner with Skytree Capital Partners, LLC (“ <b>Skytree Capital Partners</b> ”). Prior to founding Frontera, he studied law at Pepperdine School of Law from 2010 through 2013.
Todd R. Patrick <sup>(1)(2)(3)(6)</sup> Marina del Ray, California, USA	55	Lead Director	July 27, 2017	Mr. Patrick is the President and CEO of C3J Therapeutics, Inc. (“ <b>C3J</b> ”), a biotechnology company where he has served since 2010.

Duncan Gordon Calgary, Alberta, Canada	53	Chief Operating Officer	November 14, 2016	Chief Operating Officer of the Company since 2016. Previously, Mr. Gordon was Production Manager for Shanahan's Limited Partnership (2015-2016) and Chief Supply Officer for Kudu Industries Inc. for 12 years.
R. Michael Steele Calgary, Alberta, Canada	55	Chief Financial Officer and Executive Vice President Finance	February 13, 2017	Principal of the CFO Centre in Canada since early 2016 working with NHS, CFO of EnviroVault Corp. from 2013-2015, President of Granite Creek Capital Corp. from 2011-present, VP Strategic Development Asian Coast Development (Canada) Corp.
Hugh Ruthven Victoria, British Columbia, Canada	58	Chief Marketing Officer	June 11, 2017	Principal of Intuition Brand Planning for the past 14 years.
Benjamin Rootman Calgary, Alberta, Canada	39	Vice President Legal, Compliance and Regulatory Affairs and Corporate Secretary	August 14, 2017	Prior to joining the Company, from 2012-2017 Mr. Rootman held various senior legal roles within the Walton Group of Companies, a real estate investment group, including the role of General Counsel and Corporate Secretary and Vice President, Law and Chief Compliance Officer. Prior thereto, Mr. Rootman worked as a Corporate Securities Lawyer with Burstall Winger Zammit LLP.

Notes:

- (1) Member of the Audit Committee (as defined below).
- (2) Member of the CGNC (as defined below).
- (3) Member of the CC (as defined below).
- (4) Chair of the Audit Committee.
- (5) Chair of the CGNC.
- (6) Chair of the CC.

***Biographies***

The following are brief profiles of our executive officers and directors, including a description of each individual's principal occupation within the past five years.

**Dr. Anthony F. Holler, Chief Executive Officer, Chairman of the Board and Director**

Dr. Anthony (Tony) F. Holler is a co-founder of Sunniva. Prior to this, Dr. Holler was the former CEO and founder of ID Biomedical which was acquired by GSK in 2005 for \$1.7 billion and the former Chairman of Corriente Resources Inc. which was sold for approximately \$700 million to CRCC-Tongguan Investment Co. Dr. Holler is the current Chairman of CRH which is a public company trading on the Toronto Stock Exchange (the "TSX") and the New York Stock Exchange. Dr. Holler invests and takes an active role in every company and his expertise includes strategic planning, mergers and acquisitions and financing with a singular focus on increasing shareholder value.

### **Leith Pedersen, President, Chief Strategy Officer and Director**

Mr. Leith Pedersen is a co-founder of Sunniva. Prior to this, Mr. Pedersen was the former owner and CEO of Vida Wealth Management Bahamas, a former Investment Advisor at Canaccord Wealth Management and a former Partner and Director at an independent brokerage firm in Calgary, Alberta that managed capital in excess of \$3 billion for high net worth clients. Mr. Pedersen's expertise is corporate strategy, financing and sourcing potential mergers and acquisitions.

### **Ian Webb, Director**

Mr. Ian Webb is a former Director of ID Biomedical, a Director of CRH and a former senior corporate law partner of Borden Ladner Gervais LLP, one of Canada's largest law firms. Mr. Webb's practice encompassed mergers and acquisitions, corporate and securities law with an emphasis on the legal requirements of public companies and their boards of directors. He also serves as the Chair of the Corporate Governance and Nominating Committee and as a member of the Audit Committee of CRH.

### **Daniel Vass, Director**

Mr. Daniel Vass is a founder and the President of NHS which was acquired by the Company in 2017. Prior to founding NHS, Dan was the VP Canadian Operations for Contract Land Staff LLC where he was responsible for Canadian operations for four years. He was also the co-founder and President of Dayzon Energy Solutions Inc. until it was sold in 2010.

### **Norm Mayr, Director**

Mr. Norm Mayr is a recently retired (October 2016) Audit Partner having spent 38 years in public practice with KPMG. He was the Risk Management and Business Unit Professional Practice Partner for the Greater Vancouver Area practice of KPMG for the most recent 18 years of his career. In this role, Norm was responsible for managing risk in the audit practice, and regularly consulted with engagement teams dealing with complex financial reporting, accounting, audit and securities issues in their clients. During his career, Norm has had extensive experience in the mining, forestry, technology, retail and industrial markets sectors. He has served as lead engagement partner and engagement quality review partner on many of the KPMG's largest clients in these industries, including multinational reporting issuers. Norm has lectured extensively on financial reporting matters. He was a founding member of the CICA Accounting Standards Board, and a member of the Canadian Advisory Group to the International Accounting Standards Committee. He currently serves as Chair of the Investigation Committee for the Chartered Professional Accountants of British Columbia.

### **Michael Barker, Director**

Since founding Barker Pacific Group in 1983, Mr. Michael Barker has directed the development of over \$2.5 billion in commercial projects. He and his team focus on the acquisition, development, and management of residential and commercial projects in major markets. Over the past 43 years (since 1973), Mr. Barker has overseen the development of major projects in such cities as Los Angeles, San Francisco and the Bay Area, San Diego, San Jose, Phoenix, Houston, Miami, and Fort Lauderdale. Before starting Barker Pacific Group in 1983, Mr. Barker was an officer at Hines Interests, where he headed up development of over four million square feet of office space in Tulsa, Houston, and San Antonio. He also co-founded the asset management firm, First Houston Trust Company, in 1970. From 1968 to 1970, he served as a lending officer in the Energy Department of Citibank, New York. Mr. Barker is a former member of the board of Pepperdine University and currently serves as Chairman of the Board for the John Tracy Clinic, which serves hearing-impaired children. Mr. Barker is an active member of the Urban Land Institute and Lambda Alpha International. Mr. Barker holds an MBA from the University of Texas at Austin and a BBA from Abilene Christian University.

### **Luke Stanton, Director**

Mr. Luke Stanton is the Founder and Executive Chairman of Frontera, a cannabis business specialty law firm. Mr. Stanton has expanded the Frontera network to include accounting, business advisory, entertainment and government affairs entities. Frontera has worked on projects in more than a dozen state markets across the country. Mr. Stanton is also a Partner at Skytree Capital Partners, a Nevada-based private equity firm focused on the legal cannabis space, particularly as it relates to the industry's insurance needs. Mr. Stanton brings his industry expertise to Skytree to

focus on identifying businesses and business opportunities in the legal cannabis landscape. Mr. Stanton received his B.A. in Political Science from the University of Notre Dame before attending Pepperdine University's School of Law, as well as Pepperdine's Straus Institute for Dispute Resolution, earning his Juris Doctorate and Master's Degree in the same three years. Mr. Stanton has been featured in Financial Times Magazine, the National Marijuana News, mg Magazine, Cannabis Industry Journal, MJINews, LEFAIR Magazine and Merry Jane, and has made speaking appearances at numerous cannabis and investment conferences, summits and events across the country.

#### **Todd R. Patrick, Lead Director**

Mr. Todd R. Patrick is the President and CEO of C3J, a Los Angeles-based biotechnology company focused on diseases of the human microbiome. Since joining C3J, Mr. Patrick has raised \$125 million in equity capital for the company. Prior to joining C3J, Todd served as President and COO of ID Biomedical after the company elected in 1998 to exit its core diagnostic business to focus exclusively on vaccines. Mr. Patrick was the first employee of ID Biomedical's vaccine business (ID Vaccine) in 1994. In September 2005, GSK purchased ID Biomedical for approximately \$1.7 billion. Before ID Vaccine, in 1989 Mr. Patrick was appointed the first ever Director of the Office of Intellectual Property Administration at UCLA. Mr. Patrick is a member of the board of C3J, CRH, Vaxent Vaccines, LLC and the Foster Foundation. He holds a BA in economics and is a member of the Corporation Governance and Nominating Committee and Audit Committee of CRH.

#### **Duncan Gordon, Chief Operating Officer**

Mr. Duncan Gordon has over 25 years of experience as a manufacturing and supply chain expert, leading teams responsible for large scale projects with a focus on engineering, continuous improvement, procurement, logistics, production and distribution. Former head of manufacturing and supply chain management at Kudu Industries which was privately sold in 2015.

#### **R. Michael Steele, Chief Financial Officer and Executive Vice President Finance**

Mr. Michael Steele the Chief Financial Officer and Executive Vice President Finance for the Company and is responsible for financial strategy development, managing the finance team, mergers and acquisitions, risk management and information systems. He was formerly a Principal with the CFO Centre, the world's largest provider of part-time CFOs operating in 14 countries with more than 400 CFOs worldwide. Under CFO Centre, he acted as CFO for NHS and represented NHS in its sale to the Company for \$22.5 million. Prior to joining the CFO Centre, he acted as CFO for EnviroVault Corporation following a \$13.7 million leveraged buy-out by an individual investor in 2013 during which he acted as an advisor.

Mr. Steele has acted as founder and President of Granite Creek Capital Corp., a boutique advisory firm specializing in financial transactions and mergers and acquisitions. Prior to that, he acted as VP Strategic Development and Co-founder of Asian Coast Development (Canada) Ltd.; VP Communications and Strategy for World Gaming PLC, Managing Director of Inphinty Interactive; and Vice President and Co-Founder of The Matridigm Corporation.

#### **Hugh Ruthven, Chief Marketing Officer**

Mr. Hugh Ruthven is a marketing and brand executive with over 30 years of experience, leading some of the most recognized brands in North America including McDonald's Restaurants, Lever Ponds Canada, Kokanee, Budweiser, Sobeys Canada, A&P Dominion, Boston Pizza Restaurants and Telus Communications. Mr. Ruthven has also worked extensively with governments, not-for-profits and the academic community.

#### **Benjamin Rootman, Vice President, Legal, Compliance and Regulatory Affairs and Corporate Secretary**

Mr. Benjamin Rootman is the Vice President, Legal, Compliance and Regulatory Affairs and Corporate Secretary for the Company. He is responsible for managing all aspects of the Company's legal, compliance and regulatory functions and acts as Corporate Secretary to the Board of Directors. Previously, he was General Counsel and Corporate Secretary of Walton International Group Inc. ("WIGI") from January 2017 to August 2017. Prior thereto, he held the role Chief Compliance Officer and Vice President, Law for Walton Capital Management Inc. ("WCM"), a registered exempt market dealer, from July 2014 to January 2017 and the role of Legal Counsel for WIGI from July 2012 to July 2014. Before joining the Walton Group, he was an Associate at Burstall Winger Zammit LLP, focusing on corporate and securities law.

### ***Corporate Cease Trade Orders***

None of the directors or executive officers has, within the 10 years prior to the date of this prospectus, been a director, chief executive officer or chief financial officer of any company (including us) that, while such person was acting in that capacity (or after such person ceased to act in that capacity but resulting from an event that occurred while that person was acting in such capacity) was the subject of a cease trade order, an order similar to a cease trade order, or an order that denied the company access to any exemption under securities legislation, in each case for a period of more than 30 consecutive days.

### ***Bankruptcies***

Except as disclosed below, none of our directors or executive officers has, within the 10 years prior to the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Dr. Holler and Mr. Patrick are former directors of Inviro Medical Inc. (“**Inviro**”). Inviro is a company incorporated under the laws of Canada which owns certain intangible assets including goodwill and customer relationships, and all of the issued and outstanding shares of Inviro Medical Devices, Inc. (the “**US Subsidiary**”). The US Subsidiary owns inventory manufactured in accordance with licenses issued by the Department of Health of the Government of Canada and the United States Food and Drug Administration. On October 29, 2010, Inviro declared that it was no longer a going concern and on or about that time Inviro ceased to carry on business and all of its directors and officers, including Dr. Holler and Mr. Patrick, resigned. On February 10, 2011, the Supreme Court of British Columbia issued an order appointing Alvarez & Marsal Canada Inc. (the “**Receiver**”) as receiver and receiver and manager of all of the assets, undertakings and properties of Inviro. Pursuant to a further order pronounced by the Supreme Court of British Columbia on February 24, 2012, certain distributions to certain debenture holders of Inviro were authorized. The receivership process became complete in or around March 2013. On April 9, 2013, the Supreme Court of British Columbia issued an order discharging the Receiver.

R. Michael Steele acted as Chief Financial Officer of EnviroVault Corporation (“**EnviroVault**”) from December 2013 through to November 2015. He joined EnviroVault as a result of a leveraged buy-out by Sundance Holdings Corporation (“**Sundance**”) of the assets of a group of corporations operating under the EnviroVault trade name. The debt was facilitated by Royal Bank of Canada (“**RBC**”) and the equity furnished by Sundance. EnviroVault is a manufacturer of patented internal chamber storage tanks widely used by the oil industry in Western Canada. In May of 2015, after the oil and gas customers of EnviroVault significantly reduced capital spending, EnviroVault negotiated a forbearance agreement with RBC. In September 2015, EnviroVault began a management led restructuring process. On October 23, 2015, NWP Industries LP, by its general partner, NWP Industries General Partner Ltd. (collectively “**NWP**”), entered into an assignment agreement whereby NWP purchased EnviroVault’s indebtedness to RBC for the sum of \$2 million. The total outstanding debt to RBC including then accrued interest and penalties was approximately \$7.1 million. This transaction was facilitated by EnviroVault to divest of its remaining assets 100% of proceeds going to its senior debt holders. As previously agreed by the parties, NWP issued a Notice of Intention to Enforce Security in accordance with subsection 244 of the *Bankruptcy and Insolvency Act* (Canada) on November 3, 2015 and EnviroVault consented to waive notice. Hudson & Company Insolvency Trustees Inc. were appointed as trustee and managed the court process for the transfer of assets. Steele resigned as CFO on November 9, 2015.

Mr. Rootman was Chief Compliance Officer and Vice President, Law for WCMI from July 2014 to January 2017 and the General Counsel and Corporate Secretary for WIGI from January 2017 to August 2017. On April 28, 2017, WIGI and WCMI, among other Walton Group entities (collectively, the “**Walton CCAA Entities**”) voluntarily filed and obtained creditor protection under the *Companies’ Creditors Arrangement Act* (“**CCAA**”) pursuant to an Interim Order granted by the Court of Queen’s Bench of Alberta. The Initial Order authorized the Walton CCAA Entities to begin a court-supervised restructuring and provides for a broad stay of proceedings against the Walton CCAA Entities in order to provide the opportunity to finalize and present a CCAA plan to creditors for approval. As of the date of this prospectus, the CCAA proceedings are still in progress.

On August 13, 1998, Mr. Barker filed a Chapter 11 petition under the United States Bankruptcy Code in the United States Bankruptcy Court of the Central District of California in order to pursue a plan of reorganization (the “**Reorganization Plan**”). On June 30, 1999, the court entered an order confirming the Reorganization Plan.

### ***Penalties or Sanctions***

No director or executive officer of the Company or shareholder holding sufficient securities of the Company to affect materially the control of the Company has:

- been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

### ***Conflicts of Interest***

Except as disclosed below, to the best of our knowledge, there are no known existing or potential conflicts of interest among us and our directors, officers or other members of management as a result of their outside business interests except that certain of our directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to us and their duties as a director or officer of such other companies.

Michael Barker, a director of the Company, has a material interest in the Barker Pacific Group which has entered into the Barker MOU for the construction of the Company’s CPL Greenhouse Facility in Cathedral City, California. The project is contingent on the receipt of funding from the Barker Pacific Group’s investors and bankers. The total estimated cost to the Company for the facility is USD\$50 million. Mr. Barker’s interest in the transaction is expected to be 10%.

Luke Stanton, a director of the Company and the sole director and officer of SCH, is the Founder and Executive Chairman of Frontera, which provides legal services to the Company and its US subsidiaries and as such has an interest in transactions considered or conducted by the Company. In addition, Mr. Stanton is also a Partner of Skytree Capital Partners, a shareholder of the Company. Mr. Stanton has been separately retained by the Company as a consultant to conduct business development and government relations services on behalf of the Company in the United States. Mr. Stanton will be responsible for state licensing efforts, licensing applications plus supply contract negotiations with leading brands.

## **EXECUTIVE COMPENSATION**

### ***Introduction***

The following discussion describes the significant elements of our executive compensation program, with emphasis on the process for determining compensation payable to the Company’s CEO and CFO and, other than the CEO and the CFO, the Company’s three most highly-compensated executive officers, or the three most highly compensated individuals acting in a similar capacity (collectively, the “**Named Executive Officers**” or “**NEOs**”). The NEOs are:

- Dr. Anthony F. Holler, CEO
- R. Michael Steele, CFO
- Leith Pedersen, President and Chief Strategy Officer
- Duncan Gordon, Chief Operating Officer
- Daniel Vass, President of NHS

### ***Overview***

The Board of Directors on its own or through the Compensation Committee (“**CC**”) makes decisions regarding all forms of compensation, including salaries, bonuses and equity incentive compensation for the CEO and the CFO, as well as approves corporate goals and objectives relevant to their compensation. The CC makes decisions in conjunction with feedback from the CEO and the CFO regarding the performance of the Company’s other executive

officers. Finally, the CC, in tandem with the CEO and the CFO, also administers employee incentive compensation, including the Stock Option Plan.

### ***Compensation Discussion and Analysis***

#### *Compensation Objectives*

The Company's compensation practices are designed to retain, motivate and reward our executive officers for their performance and contribution to the Company's long-term success. The Board of Directors seeks to compensate executive officers by combining short-term and long-term cash and equity incentives. It also seeks to reward the achievement of corporate and individual performance objectives and to align executive officers' incentives with the Company's performance. The Company seeks to tie individual goals to the area of the senior executive officer's primary responsibility. These goals may include the achievement of specific financial or business development goals. Company performance goals are based on the Company's financial performance during the applicable financial year.

In order to achieve our growth objectives, attracting and retaining the right team members is critical. A key part of this is a well-thought out compensation plan that attracts high performers and compensates them for continued achievements. Many of the Company's team members are currently participating in the Stock Option Plan, driving retention and ownership. Communicating clear and concrete criteria and process for merit-based increases and bonuses will also motivate the entire team to achieve individual and corporate goals.

NEO's and directors may not purchase financial instruments designed to hedge or offset a decrease in market value of securities granted as compensation or held by the director or NEO.

#### *Elements of Compensation Program*

The Company's executive compensation consists primarily of three elements: base salary, annual bonuses and long-term equity incentives.

#### Bonus Plans

The NEOs receive target bonus payments, subject to the Board of Directors' discretion after considering all relevant factors.

Target bonus levels for the Company's NEOs are as follows:

- |                         |                     |
|-------------------------|---------------------|
| • Dr. Anthony F. Holler | \$175,000 per annum |
| • R. Michael Steele     | \$75,000 per annum  |
| • Leith Pedersen        | \$75,000 per annum  |
| • Duncan Gordon         | \$75,000 per annum  |
| • Daniel Vass           | \$75,000 per annum  |

#### Stock Option Plan

The Company currently has 3,120,000 options outstanding under the Stock Option Plan. The Stock Option Plan allows for the grant of incentive stock options to the Company's directors, officers and Service Providers (as defined in the Stock Option Plan). The Board of Directors is responsible for administering the Stock Option Plan, and the CC makes recommendations to the Board of Directors in respect of matters relating to the Stock Option Plan.

The aggregate number of Common Shares reserved for issuance under the Stock Option Plan as of the date hereof is 3,120,000 Common Shares.

Unless otherwise determined by the Board of Directors, options granted under the Stock Option Plan generally vest in sixteen equal tranches on each of the subsequent three-month anniversaries of the Grant Date until all such options have vested. The options expire on the date which is ten years after the Grant Date. The Stock Option Plan also provides that, unless otherwise determined by the Board of Directors, if the optionee ceases to be a director, officer or Service Provider of the Company, their options terminate within a period of time after the optionee actually ceases to be a director, officer or Service Provider of the Company. The exercise price for options granted



under the Stock Option Plan is determined by the Board of Directors, but may not be less than the market value of the Common Shares.

The Stock Option Plan provides that if options granted under the Stock Option Plan would otherwise expire during a trading black-out period or within 10 business days following the end of such period, the expiry date of such options are extended to the tenth business day following the end of the black-out period. Options granted under the Stock Option Plan are not transferable, subject to limited exceptions. The Board of Directors has overall authority for interpreting, applying, amending and terminating the Stock Option Plan.

For executives, previous grants are taken into account when considering new grants to determine aggregate performance based option grants in subsequent years. The Compensation Committee has awarded non-executive directors with an initial grant of 100,000 stock options per director, with an annual grant of 25,000 stock options per year, without consideration of prior grants.

### ***Compensation of Named Executive Officers***

The following table sets out information concerning the expected compensation for the year ending December 31, 2017 to be paid to the NEOs, effective as of date hereof.

Name and Principal Position	Salary	Non-Equity Incentive Plan Compensation			Pension Value	All other Compensation	Total Compensation
		Option-Based Awards <sup>(1)</sup>	Annual Incentive Plans <sup>(2)</sup>	Long-Term Incentive Plans			
Dr. Anthony F. Holler Chief Executive Officer <sup>(3) (4)</sup>	\$350,000	\$175,000	\$175,000	-	-	-	\$700,000
R. Michael Steele Chief Financial Officer and Executive Vice President Finance	\$207,440	\$175,000	\$75,000	-	-	-	\$457,440
Leith Pedersen President and Chief Strategy Officer <sup>(4)</sup>	\$270,194	\$175,000	\$75,000	-	-	-	\$540,194
Duncan Gordon Chief Operating Officer	\$250,000	\$175,000	\$75,000	-	-	-	\$500,000
Daniel Vass President, NHS <sup>(4)</sup>	\$223,214	\$175,000	\$75,000	-	-	-	\$473,214

Notes:

- <sup>(1)</sup> The Black Scholes option pricing model is used for calculating the value of option based awards utilizing the same assumptions described in the enclosed financial statements of the Company. See Note 12(d) of the Consolidated Financial Statements.
- <sup>(2)</sup> Represents minimum amounts expected to be earned pursuant to our annual bonus program, based on 100% of target payment amounts. Actual payments will depend on achievement of performance goals and will be paid in cash in the year following the fiscal year in respect of which they are earned.
- <sup>(3)</sup> Dr. Anthony F. Holler has deferred salary and bonus plan compensation until the Company is listed on a stock exchange.
- <sup>(4)</sup> Dr. Anthony F. Holler, Leith Pedersen and Daniel Vass are members of the Board of Directors and receive no additional compensation for these roles.

### ***Outstanding Option-Based Awards***

The following table sets out for each of the NEOs information concerning all option-based awards outstanding at December 31, 2016:

<b>Name</b>	<b>Option-Based Awards</b>			<b>Value of Unexercised In-the-Money Options<sup>(1)</sup></b>
	<b>Number of Securities Underlying Unexercised Options</b>	<b>Option Exercise Price</b>	<b>Option Expiration Date</b>	
Dr. Anthony F. Holler <sup>(2)</sup>	Nil	N/A	N/A	Nil
R. Michael Steele <sup>(3)</sup>	Nil	N/A	N/A	Nil
Leith Pedersen <sup>(4)</sup>	Nil	N/A	N/A	Nil
Duncan Gordon <sup>(5)</sup>	Nil	N/A	N/A	Nil
Daniel Vass <sup>(6)</sup>	Nil	N/A	N/A	Nil

Notes:

- (1) The Black Scholes option pricing model is used for calculating the value of option based awards utilizing the same assumptions described in the enclosed financial statements of the Company. See Note 12(d) of the Consolidated Financial Statements.
- (2) Subsequent to the financial year ended December 31, 2016, Dr. Anthony. F. Holler was granted 250,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$88,125.
- (3) Subsequent to the financial year ended December 31, 2016, R. Michael Steele was granted 250,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$88,125.
- (4) Subsequent to the financial year ended December 31, 2016, Leith Pedersen was granted 250,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$88,125.
- (5) Subsequent to the financial year ended December 31, 2016, Duncan Gordon was granted 250,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$88,125.
- (6) Subsequent to the financial year ended December 31, 2016, Daniel Vass was granted 250,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$88,125.

### ***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table sets forth particulars of the value of option-based awards and share-based awards which vested during the year ended December 31, 2016:

<b>Name</b>	<b>Option-based awards – Value vested during the year</b>	<b>Share awards- Value during the year on vesting</b>	<b>Non-equity incentive plan compensation pay-out during the year</b>
Dr. Anthony F. Holler	Nil	N/A	N/A
R. Michael Steele	Nil	N/A	N/A
Leith Pedersen	Nil	N/A	N/A
Duncan Gordon	Nil	N/A	N/A
Daniel Vass	Nil	N/A	N/A

### ***Employee Agreements and Termination and Change of Control Benefits***

Each of the Named Executive Officers has entered into an employment agreement with the Company. Those employment agreements include provisions regarding base salary, eligibility for annual bonuses, enrolment of benefits and participation in the Stock Option Plan, among other things.

In connection with their employment agreements, each Named Executive Officer is required to enter into a non-disclosure and confidentiality agreement (“**NDA**”). The NDA requires that all information, such as trade secrets, data or other proprietary information relating to products, procedures or formulas, that is disclosed to the NEO through the course of his or her employment is considered “confidential information” that is the exclusive right and property of the Company. Upon the termination of employment, the NDA provides that each NEO is prohibited for a specified period of time from developing, manufacturing and marketing products or engaging in consulting services which, in the Company’s sole discretion, are competitive to the Company’s business.

Each of the NEO contracts includes a termination provision that includes a severance obligation on the part of the Company for termination without cause, death or disability of the NEO, or resulting from a change of control. Under the contracts, a change of control is triggered by one of:

1. the purchase or acquisition of any voting shares of the Company or securities convertible into voting shares of the Company (“**Convertible Securities**”) by a person which results in the person beneficially owning, or exercising control or direction over, voting shares of the Company or Convertible Securities such that, assuming only the conversion of Convertible Securities beneficially owned or over which control or direction is exercised by the person, the person would beneficially own, or exercise control or direction over, voting shares of the Company carrying the right to cast more than 50% of the votes attaching to all voting shares, but excluding any issue or sale of voting shares of the Company to an investment dealer or group of investment dealers as underwriters or agents for distribution to the public either by way of prospectus or private placement; or
2. the approval by the shareholders of the Company of an amalgamation, arrangement, merger or other consolidation or combination of the Company with another entity which requires approval of the shareholders of the Company pursuant to its statute of incorporation and pursuant to which the shareholders of the Company immediately thereafter do not own shares of the successor or continuing entity, which would entitle them to cast more than 50% of the votes attaching to all shares in the capital of the successor or continuing corporation, which may be cast to elect directors of that corporation; or
3. the election at a meeting of the Company’s shareholders of that number of persons which would represent a majority of the Board of Directors, as directors of the Company who are not included in the slate for election as directors proposed to the Company’s shareholders by the Company; or
4. approval by the shareholders of the Company of the liquidation, dissolution or winding-up of the Company; or
5. approval by the shareholders of the Company of the sale, lease or other disposition of all or substantially all of the assets of the Company; or

6. the completion of any transaction or the first of a series of transactions which would have the same or similar effect as any transaction or series of transactions referred to in subsections 1, 2, 3, 4 and 5 referred to above; or
7. a determination by the Board of Directors that there has been a change, whether by way of a change in the holding of the voting shares of the Company, in the ownership of the Company assets or by any other means, as a result of which any person or group of persons acting jointly or in concert is in a position to exercise effective control of the Company.

The Company considers such provisions mitigating considerations in the event of a hostile takeover bid to acquire the Company.

## **DIRECTOR COMPENSATION**

### ***Summary of Director Compensation***

Each non-executive director of the Company receives an annual fee of \$32,000. In addition to the annual fee, each non-executive director receives an additional \$2,000 in respect of each Board of Directors quarterly meeting attended in person or by telephone and an additional \$2,000 per meeting in respect of each committee meeting attended in person or by telephone. Committee chairs and the Lead Director are also compensated with the following annual fees:

1. Lead Director - \$16,000
2. Audit Committee Chair - \$20,000
3. Compensation Committee Chair - \$10,000
4. Corporate Governance and Nominating Committee Chair - \$10,000

Each independent director receives an additional annual committee membership fee of \$6,000. All directors are reimbursed for their respective out of pocket expenses in relation to their attendance at Board of Directors meetings and committee meetings. Director compensation matters are dealt with by the CC.

The following table sets forth for each of the Company's directors, other than directors who are also NEOs, all amounts of compensation for the Company's most recently completed financial year ended December 31, 2016.

<u>Name</u>	<u>Fees Earned</u>	<u>Option-based Awards <sup>(1,2)</sup></u>	<u>Non-Equity Incentive Plan Compensation</u>	<u>All Other Compensation <sup>(2)</sup></u>	<u>Total</u>
Ian Webb	Nil	Nil	Nil	Nil	Nil
Norm Mayr	Nil	Nil	Nil	Nil	Nil
Michael Barker	Nil	Nil	Nil	Nil	Nil
Luke Stanton	Nil	Nil	Nil	Nil	Nil
Todd R. Patrick	Nil	Nil	Nil	Nil	Nil

Notes:

(1) The Black Scholes option pricing model is used for calculating the value of option based awards based on the assumptions described in the enclosed financial statements of the Company. See Note 12(d) of the Interim Financial Statements.

(2) Subsequently, Messrs. Webb, Mayr, Barker, Stanton and Patrick were awarded 100,000 stock options each (see below).

### ***Outstanding Option-Based Awards***

The following table sets out for each of the Company's directors, other than directors who are also Named Executive Officers, information concerning all option-based awards outstanding at December 31, 2016.

<b>Option-based Awards</b>				
<b>Name</b>	<b>Number of securities underlying unexercised options</b>	<b>Option exercise price</b>	<b>Option expiration date</b>	<b>Value of unexercised in-the-money-options (1)</b>
Ian Webb <sup>(2)</sup>	Nil	Nil	Nil	Nil
Norm Mayr <sup>(3)</sup>	Nil	Nil	Nil	Nil
Michael Barker <sup>(4)</sup>	Nil	Nil	Nil	Nil
Luke Stanton <sup>(5)</sup>	Nil	Nil	Nil	Nil
Todd R. Patrick <sup>(6)</sup>	Nil	Nil	Nil	Nil

Notes:

- (1) The Black Scholes option pricing model is used for calculating the value of option based awards based on the assumptions described in the enclosed financial statements of the Company. See Note 12(d) of the Interim Financial Statements.
- (2) Subsequent to the financial year ended December 31, 2016, Ian Webb was granted 100,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$35,250.
- (3) Subsequent to the financial year ended December 31, 2016, Norm Mayr was granted 100,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$35,250.
- (4) Subsequent to the financial year ended December 31, 2016, Michael Barker was granted 100,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$35,250.
- (5) Subsequent to the financial year ended December 31, 2016, Luke Stanton was granted 100,000 options, with an exercise price of \$3.40, an expiration date of April 13, 2027, and a value of unexercised, in-the-money options of \$35,250.
- (6) Subsequent to the financial year ended December 31, 2016, Todd R. Patrick was granted 100,000 options, with an exercise price of \$3.40, an expiration date of June 15, 2027, and a value of unexercised, in-the-money options of \$35,250.

### ***Indemnification and Insurance***

The Company maintains director and officer liability insurance and errors and omissions insurance. The Company has not at this time entered into indemnification agreements with its directors and officers.

Pursuant to section 7.2 of the Company's By-laws, subject to the limitations of the CBCA, the Company will indemnify a director or officer of the Company, a former director or officer of the Company, or another individual who acts or acted at the Company's request as a director or officer, or an individual acting in a similar capacity, of another entity, against all costs, charges and expenses, including an amount paid to settle an action or satisfy a judgment, reasonably incurred by the individual in respect of any civil, criminal, administrative, investigative or other proceeding in which the individual is involved because of that association with the Company or another entity, provided the individual:

- a) acted honestly and in good faith with a view to the best interest of the Company or, as the case may be, to the best interests of the other entity for which the individual acted as director or officer or in a similar capacity at the Company's request; and
- b) in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, the individual had reasonable grounds for believing that the individual's conduct was lawful.

## **CORPORATE GOVERNANCE**

### ***Board of Directors***

#### *Overview*

The Board of Directors is responsible for supervising the management of our business and affairs. The Board of Directors has adopted a formal mandate setting out its stewardship responsibilities, including its responsibilities for the appointment of management, management of the Board of Directors, strategic and business planning, monitoring of financial performance, financial reporting, risk management and oversight of the Company's policies and

procedures, communications and reporting and compliance. A copy of the mandate of the Board of Directors is attached as Appendix A to this prospectus.

The Board of Directors is currently comprised of eight (8) directors: Dr. Anthony F. Holler, Leith Pedersen, Ian Webb, Daniel Vass, Norm Mayr, Michael Barker, Luke Stanton and Todd R. Patrick.

The Board of Directors has established an audit committee (the “**Audit Committee**”), a corporate governance committee and nominating committee (the “**CGNC**”) and the CC (collectively, the “**Committees**”) and has approved charters for each of these committees, which are described below. The Board of Directors has delegated to the applicable committee those duties and responsibilities set out in each committee’s charter. The mandate of the Board of Directors, as well as the charters of the Committees, set out in writing the responsibilities of the Board of Directors.

### *Independence*

As of the date of this prospectus, the Board of Directors is comprised of eight (8) directors, three (3) of whom are independent. Under National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”), an independent director is one who is free from any direct or indirect relationship which could, in the view of the Board of Directors, be reasonably expected to interfere with a director’s exercise of independent judgment. The Board of Directors has determined that Dr. Anthony F. Holler, Leith Pedersen, and Daniel Vass as executive officers of the Company or its subsidiaries, are not considered independent. Further, due to their business interests in connection with the Company, each of Michael Barker and Luke Stanton are not considered independent. Each of Ian Webb, Norm Mayr and Todd R. Patrick are considered independent.

In addition to chairing all Board of Directors meetings, the Charman of the Board’s role is to, in consultation with the Lead Director facilitate and chair discussions among the Company’s independent directors, facilitate communication between the independent directors and management, and, if and when necessary, act as a spokesperson on behalf of the Board of Directors in dealing with the press and members of the public. The Chair’s responsibilities and duties are described in detail in a position description developed by the Board of Directors. Dr. Anthony F. Holler, the Chairman of the Board, is not independent as he is an executive officer.

The Board of Directors has appointed Todd R. Patrick as the Lead Director. The Lead Director’s role is to ensure that the Board of Directors functions independent of management and to act as the principal liaison between the independent directors and the CEO. The responsibilities of the Lead Director include calling and presiding as chair over meetings of independent directors, reviewing and making recommendations with respect to the agenda for all of the meetings of the full Board of Directors, and providing the leadership necessary to provide greater assurance that the Board of Directors operates and functions independent of management and that Board of Directors functions are effectively carried out.

The Audit Committee, CGNC and CC are comprised entirely of independent directors: Ian Webb, Norm Mayr, and Todd R. Patrick. In addition, where potential conflicts arise during a director’s tenure on the Board of Directors, such conflicts are expected to be immediately disclosed to the Board of Directors.

The Company has taken steps to ensure that adequate structures and processes are in place to permit the Board of Directors to function independently of management. The Board of Directors will hold regularly scheduled meetings as well as ad hoc meetings from time to time. It is contemplated that in the course of meetings of the Board of Directors or the Committees, the independent directors will hold in camera sessions at which neither non-independent directors nor officers of the Company are in attendance.

The Board of Directors has approved a written position description for the Chairman of the Board and Lead Director.

### *Other Directorships*

The following directors of the Company are also directors of other reporting issuers (or the equivalent) in Canada or a foreign jurisdiction:

<u>Name of Director</u>	<u>Name of Reporting Issuer and Exchange</u>
Dr. Anthony F. Holler	CRH Medical Corp. – TSX: CRH
Ian Webb	CRH Medical Corp. – TSX: CRH
Todd R. Patrick	CRH Medical Corp.– TSX: CRH

### *Meeting Attendance*

During the year ended December 31, 2016, the Board of Directors did not hold any formal meetings.

### *Orientation and Continuing Education*

New directors of the Company will participate in an initial information session on the Company in the presence of its senior executive officers to learn about, among other things, the business of the Company, its financial situation and its strategic planning. In addition, new directors will be furnished with appropriate documentation, providing them with information about, among other matters, the corporate governance practices of the Company, the structure of the Board of Directors and the Committees, the Company’s history, its commercial activities, its corporate organization, the charters of the Board of Directors and the Committees, the Articles, the Company’s Code of Business Conduct and Ethics (the “Code”) and other relevant corporate policies.

The Company will support all directors who wish to attend continuing education programs and intends to facilitate such continuing education of its directors where appropriate, including, from time to time, by hosting brief information sessions during Board of Directors meetings by invited external advisors. In addition, management will periodically make presentations to the directors on various topics, trends and issues related to the Company’s activities during meetings of the Board of Directors or the Committees, which will be intended to help the directors to constantly improve their knowledge about the Company and its business.

### *Code of Conduct*

The Board of Directors has adopted the Code which applies to directors, officers and employees. The objective of the Code is to provide guidelines for enhancing our reputation for honesty, integrity and the faithful performance of undertakings and obligations. The Code addresses conflicts of interest, use of company assets, inventions, use of Company email and internet services, disclosure, corporate opportunities, confidentiality, fair dealing and compliance with laws. As part of our Code, any person subject to the Code is required to avoid any activity, interest (financial or otherwise) or relationship that would create or appear to create a conflict of interest.

Our directors are responsible for monitoring compliance with the Code, for regularly assessing its adequacy, for interpreting the Code in any particular situation and for approving changes to the Code from time to time.

Directors and executive officers are required by applicable law and our corporate governance practices and policies to promptly disclose any potential conflict of interest that may arise. If a director or executive officer has a material interest in an agreement or transaction, applicable law and principles of sound corporate governance require them to declare the interest in writing or by requesting to have it entered in the minutes of meetings of directors or of meetings of Committees, and where required by applicable law, to abstain from voting with respect to such agreement or transaction.

A copy of the Code may be obtained by contacting the Company and will be available for review under our profile on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The Company has also adopted an Insider Trading Policy, a Disclosure Policy, and a Whistleblower Policy, which complement the obligations of the directors, officers and employees under the Code.

## **Board of Directors Committees**

### *Audit Committee*

The Company is relying on the exemption in section 6.1 of NI 52-110 in order to provide the disclosure required under Form 52-110F2.

The Audit Committee consists of three (3) directors, all of whom are independent. They are also all financially literate in accordance with NI 52-110. The members of the Audit Committee are Norm Mayr (Chair), Ian Webb and Todd R. Patrick.

For the purposes of NI 52-110, an individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer's financial statements. All members of the Audit Committee have experience reviewing financial statements and dealing with related accounting and auditing issues. The education and experience of each member of the Audit Committee relevant to the performance of his duties as a member of the Audit Committee can be found under the heading "*Directors and Executive Officers — Biographies*".

The Board of Directors has adopted a written charter for the Audit Committee. The mandate of the Audit Committee is to assist the Board of Directors in fulfilling its financial oversight obligations, including the responsibility: (1) to identify and monitor the management of the principal risks that could impact the financial reporting of the Company; (2) to monitor the integrity of our financial reporting process and our internal accounting controls regarding financial reporting and accounting compliance; (3) to oversee the qualifications and independence of our external auditor; (4) to oversee the work of our financial management and external auditor; and (5) to provide an open avenue of communication between the external auditors, the Board of Directors and management.

A copy of the mandate of the Audit Committee is attached as Appendix B to this prospectus.

Under its charter, the Audit Committee is required to pre-approve all audit and non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for all non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve a consideration of the potential impact of such services on the independence of the external auditors.

In 2016, the Company undertook its first audit and was billed the following fees by its external auditor, KPMG:

	<b>Year ended December 31, 2016</b>
Audit Fees <sup>(1)</sup> .....	\$160,500
Audit Related Fees <sup>(2)</sup> .....	\$0.00
Tax Fees <sup>(3)</sup> .....	\$0.00
All Other Fees <sup>(4)</sup> .....	\$0.00
<b>All Fees Paid</b> .....	<b>\$160,500</b>

Notes:

- (1) Fees for audit services.
- (2) Fees for assurance and related services not included in audit services above.
- (3) Fees for tax compliance, tax advice and tax planning.
- (4) All other fees not included above.

Following the Company's Annual General Meeting held on July 27, 2017, KPMG resigned as auditor to the Company. Subsequently, the Board of Directors appointed MNP LLP to act as the Company's auditor.

### *Corporate Governance and Nominating Committee*

The Board of Directors has appointed the CGNC comprising of three (3) independent directors. The members of the CGNC are Ian Webb (Chair), Norm Mayr and Todd R. Patrick.



Pursuant to the charter of the CGNC, its mandate is to assist the Company's directors in carrying out the Board of Directors' oversight responsibility for (i) ensuring that the Company's strategic direction is reviewed annually, and (ii) ensuring that the Board of Directors and each of its Committees carry out their respective functions in accordance with an appropriate process.

The CGNC is responsible for overseeing and assessing the functioning of the Board of Directors, its Committees and individual directors, and for the development, recommendation to the Board of Directors, implementation and assessment of effective corporate governance principles. The CGNC is also responsible for identifying candidates for directorship and recommending that the Board of Directors select qualified director candidates for election to the Board of Directors. There is no formal assessment process. Rather, the CGNC is responsible for determining the appropriate assessment process.

The process by which the Board of Directors identifies new candidates for board nomination is set out in the CGNC Mandate.

#### *Compensation Committee*

The Board of Directors has appointed the CC comprising of three (3) independent directors. The members of the CC are Todd R. Patrick (Chair), Ian Webb and Norm Mayr.

Pursuant to the charter of the CC, its mandate is to assist the Company's directors in carrying out the Board of Directors' oversight responsibility for (i) overseeing the Company's human resources and compensation policies and processes, and (ii) demonstrating to the Company's shareholders that the compensation of the directors who are also employees of the Company is recommended by directors who have no personal interest in the outcome of decisions of the CC and who will have due regard to the interests of all of the Company's shareholders.

The primary responsibilities of the CC with respect to compensation are to make recommendations to the Board of Directors in respect of: (1) compensation policies and guidelines; (2) management incentive and perquisite plans and any non-standard remuneration plans; (3) senior management, executive and officer compensation; and (4) Board of Directors compensation matters. In carrying out these responsibilities, the CC will evaluate the performance of the Company's CEO and all other senior executives in consideration of the respective performance goals and objectives for each such individual and recommend to the Board of Directors the amount of regular and incentive compensation to be paid to the Company's CEO and all other senior executives; review and recommend to the Board of Directors the Company's CEO's performance evaluations and recommendations for compensation of our officers and key employees (other than our senior executives); review our compensation philosophy and make recommendations for changes, where appropriate; review and make recommendations to the Board of Directors with respect to incentive based compensation plans and equity based plans (including stock option plans); review and recommend to the Board of Directors the aggregate bonus pools to be made available under the Company's incentive compensation plans for senior management, executives and officers; prepare or review the report on executive compensation and compensation discussion and analysis required to be included in the Company's continuous disclosure documentation; and review and make periodic recommendations to the Board of Directors regarding the compensation of the Board of Directors. More information on the process by which compensation for the Company's directors and officers is determined as set forth under the headings "Executive Compensation" and "Director Compensation".

Ian Webb and Todd R. Patrick have direct experience relevant to executive compensation responsibilities and serve on the Compensation Committee of CRH.

#### *Majority Voting Policy*

The Company has adopted a majority voting policy in director elections that will apply at any meeting of our shareholders where an uncontested election of directors is held. Pursuant to this policy, if the number of proxy votes withheld for a particular director nominee is greater than the votes for such director, the director nominee will be required to submit his or her resignation as a director to the Chairman of the Board of Directors promptly following the applicable shareholders' meeting. Following receipt of the resignation, the Board of Directors will consider whether or not to accept the offer of resignation. Within 90 days following the applicable shareholders' meeting, the Board of Directors shall publicly disclose their decision whether or not to accept the applicable director's resignation, including the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to this policy will not be permitted to participate in any meeting of the Board of Directors or the

CGNC at which the resignation is considered. A copy of the majority voting policy will be available on the Company's website at [www.sunniva.com](http://www.sunniva.com).

### ***Assessments***

As described above, the CGNC is responsible for overseeing and assessing the functioning of the Board of Directors and the Committees. The CGNC must annually review and evaluate and make recommendations to the Board with regard to the size, composition and role of the Board of Directors and the Committees (including the type of committees to be established) and the methods and processes by which the Board of Directors, the Committees and individual directors fulfill their duties and responsibilities, including the methods and processes for evaluating Board of Directors, the Committee and individual director effectiveness.

### ***Term Limits***

The Company has not adopted term limits for directors of the Company. The Board of Directors believes that the need to have experienced directors who are familiar with the business of the Company must be balanced with the need for renewal, fresh perspectives and a healthy skepticism when assessing management and its recommendations. In addition, as mentioned above the Board of Directors undertakes an assessment process that evaluates its effectiveness.

While term limits can help ensure the Board of Directors gains fresh perspective, imposing this restriction means the Board of Directors would lose the contributions of longer serving directors who have developed a deeper knowledge and understanding of the Company over time. The Board of Directors believes that term limits have the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and thereby provide an increasing contribution to the Board of Directors as a whole.

## **INTEREST OF MANAGEMENT AND OTHERS**

The Company entered into the Goleta Facility Lease. Dr. Anthony F. Holler, Chairman and CEO, has guaranteed the Goleta Facility Lease on behalf of the Company with an estimated liability as at June 30, 2017 of \$1.8 million.

Michael Barker, a director of the Company, has a material interest in the Barker Pacific Group which has entered into the Barker MOU for the construction of the CPL Greenhouse Facility. The project is contingent on the receipt of funding from the Barker Pacific Group's investors and bankers. The total estimated cost to the Company for the facility is USD\$50 million. Mr. Barker's interest in the transaction is expected to be 10%.

Luke Stanton, a director of the Company and the sole director and officer of SCH, is the Founder and Executive Chairman of Frontera, which provides legal services to the Company and its US subsidiaries and as such has an interest in transactions considered or conducted by the Company. In addition, Mr. Stanton is also a Partner of Skytree Capital Partners, a shareholder of the Company. Mr. Stanton has been separately retained by the Company as a consultant to conduct business development and government relations services on behalf of the Company in the United States. Mr. Stanton will be responsible for state licensing efforts, licensing applications plus supply contract negotiations with leading brands.

## **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

None of the Company's directors or officers or any of their respective associates is indebted to the Company or has been subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by the Company or any of our subsidiaries.

## **PLAN OF DISTRIBUTION**

This prospectus is being filed in the Qualifying Jurisdictions to qualify the distribution of 983,753 Qualified Shares, issuable upon the exercise or deemed exercise of 983,753 Special Warrants, the distribution of 11,112 Corporate Finance Fee Shares, issuable upon the exercise or deemed exercise of 11,112 Corporate Finance Fee Special Warrants the distribution of the Broker Warrants issuable upon the exercise or deemed exercise of 59,596 Broker Special Warrants and the distribution of the Additional Shares issued upon the exercise or deemed exercise of each Special Warrant and Corporate Finance Fee Special Warrant, respectively, after the Penalty Deadline has passed.

On June 27, 2017, August 9, 2017 and September 19, 2017, the Company completed the Offering pursuant to prospectus exemptions under applicable securities legislation, comprised of an aggregate of 983,753 Special Warrants issued in the Qualifying Jurisdictions (and in jurisdictions outside of Canada in compliance with laws applicable therein) on a private placement basis at a price of \$6.75 per Special Warrant, which was determined by arm's length negotiation between the Company and the Agents.

Pursuant to the Agency Agreement, the Company paid the Agents a cash fee of 7% of the gross proceeds from the Offering, excluding those received from certain "President's List" subscribers, and 2.5% of the gross proceeds from the "President's List" subscribers.

In addition to the above, the Company agreed to pay to the Lead Agent a corporate finance fee of \$150,000, 50% of which was paid in cash, and the other 50% was paid by issuing 11,112 Corporate Finance Fee Special Warrants to the Lead Agent. This prospectus also qualifies the Corporate Finance Fee Shares issuable without payment of any additional consideration upon the exercise of 11,112 Corporate Finance Fee Special Warrants issued pursuant to the Agency Agreement.

As additional compensation, the Company issued to the Agents, and certain registrants comprising the selling group, 59,596 Broker Special Warrants, representing 7% of the Special Warrants sold under the Offering, excluding those sold to "President's List" subscribers, and 2.5% of the Special Warrants sold to "President's List" subscribers, by the Agents pursuant to the Offering. Each Broker Special Warrant entitles the holder thereof to acquire one Broker Warrant upon the exercise or deemed exercise thereof. The Company is responsible for reimbursing certain fees and expenses, including legal fees, incurred by the Agents in connection with the issuance and distribution of the Special Warrants and the Common Shares underlying the Special Warrants. In connection with such reimbursement, the Company has paid to the Agents \$118,500.

This prospectus also qualifies the Broker Warrants. Each Broker Warrant entitles the holder thereof to acquire one Common Share at a price of \$6.75 until June 27, 2019. The Agents will receive no other fees in connection with the distribution of the Qualified Shares, if any, under this prospectus. Except as disclosed above, no compensation was paid to any finder or agent in connection with the Offering.

The Special Warrant Certificates provide that in the event that the Final Receipt for the final long form prospectus is not issued to the Company by securities regulators on or prior to October 25, 2017, each Special Warrant and Corporate Finance Fee Special Warrant which is exercised or deemed to be exercised thereafter will entitle the holder to receive 1.1 Common Shares without payment of any further consideration. This prospectus also qualifies the Additional Shares issued.

The Special Warrant Certificates provide that in the event of certain alterations of the outstanding Common Shares, including any subdivision, consolidation or reclassification, an adjustment shall be exercise of the Special Warrants and Corporate Finance Fee Special Warrants following the occurrence of any of those events, be entitled to receive the same number and kind of securities that they would have been entitled to receive had they exercised their Special Warrants or Corporate Finance Fee Special Warrants prior to the occurrence of those events. No fractional Qualified Shares or Corporate Finance Fee Shares will be issued upon the exercise or deemed exercise of the Special Warrants and Corporate Finance Fee Special Warrants, respectively. The holding of Special Warrants or Corporate Finance Fee Special Warrants does not make the holder thereof a shareholder of the Company or entitle the holder to any right or interest granted to shareholders. The Special Warrant Certificates provide that all holders of Special Warrants and Corporate Finance Fee Special Warrants shall be bound by any resolution passed at a meeting of the holders of Special Warrants and Corporate Finance Fee Special Warrants held in accordance with the provisions of the Special Warrant Certificates. The foregoing summary of certain provisions of the Special Warrant Certificates is qualified in its entirety by reference to the provisions of the Special Warrant Certificates, copies of which may be obtained on request without charge from the Company at 1200 Waterfront Centre, 200 Burrard Street, PO Box 48600, Vancouver, British Columbia V7X 1T2, telephone: (250) 826-3661.

The Company has agreed to indemnify the Agents and its affiliates and their respective directors, officers, employees and agents against certain liabilities and expenses.

The Company has applied to have its Common Shares listed on the CSE. The listing of the Common Shares will be subject to the Company fulfilling all of the listing requirements of the CSE, which cannot be guaranteed.

This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the U.S. or to, or for the account or benefit of, U.S. Persons. None of the Qualified Shares, the

Corporate Finance Fee Shares or the Broker Warrants have been or will be registered under the U.S. Securities Act or the securities laws of any state of the U.S. and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. Persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

The Special Warrants may not be exercised by or on behalf of a U.S. Person or a person in the U.S. unless an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available. Accordingly, the Qualified Shares, the Corporate Finance Fee Shares and the Broker Warrants will bear appropriate legends evidencing the restrictions on the offering, sale and transfer of such securities.

## **RISK FACTORS**

Investing in our Common Shares involves significant risks. You should carefully consider the risks described below, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this prospectus, and all other information contained in this prospectus, including the consolidated financial statements and accompanying notes. The risks and uncertainties described below are those we currently believe to be material, but they are not the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. In that event, the market price of our Common Shares could decline and you could lose part or all of your investment.

### **Risks Generally Related to the Company**

*The Company is a development stage company with little operating history, a history of losses and the Company cannot assure profitability.*

The Company's business is comprised of several recently-acquired subsidiaries. As such, the Company recognized approximately \$5.7 million of revenue and a loss attributable to the shareholders of approximately \$12 million in the six months ended June 30, 2017 based on limited operations. The Company has been incurring operating losses and cash flow deficits since the inception of such operations, as it attempts to create an infrastructure to capitalize on the opportunity for value creation that is emerging from the relaxing of state and local prohibitions on the cannabis industry in California and nationwide in Canada. The Company's lack of operating history, and the lack of historical pro-forma combined financial information for the Company and its acquired subsidiaries, makes it difficult for investors to evaluate the Company's prospects for success. Prospective investors should consider the risks and difficulties the Company might encounter, especially given the Company's lack of an operating history or historical pro forma combined financial information, there is no assurance that the Company will be successful and the likelihood of success must be considered in light of its relatively early stage of operations.

As the Company has only just begun to generate revenue, it is extremely difficult to make accurate predictions and forecasts of its finances. This is compounded by the fact the Company intends to operate in the cannabis industry, which is rapidly transforming. There is no guarantee that the Company's products or services will be attractive to potential consumers.

*Uncertainty about the Company's ability to continue as a going concern.*

The Company is 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 medical cannabis industry and grow its revenue. The Company's ability to continue as a going concern is dependent upon its ability in the future to grow its revenue and achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at 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 Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.***

The Company's actual financial position and results of operations may differ materially from management's expectations. The Company has experienced some changes in its operating plans and certain delays in its plans. As a result, the Company's revenue, net income and cash flow may differ materially from the Company's projected revenue, net income and cash flow. The process for estimating the Company's revenue, net income and cash flow requires the use of judgment in determining the appropriate assumptions and estimates. These estimates and assumptions may be revised as additional information becomes available and as additional analyses are performed. In addition, the assumptions used in planning may not prove to be accurate, and other factors may affect the Company's financial condition or results of operations.

***The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.***

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company. Our efforts to grow our business may be costlier than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this prospectus, and unforeseen expenses, difficulties, complications and delays, and other unknown events. If we are unable to achieve and sustain profitability, the market price of our Common Shares may significantly decrease.

***There are factors which may prevent the Company from the realization of growth targets.***

The Company is currently in the expansion from early development stage. The Company's growth strategy contemplates building the California facilities. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors, including some that are discussed elsewhere in these "Risk Factors" and the following:

- delays in obtaining, or conditions imposed by, regulatory approvals;
- facility design errors;
- environmental pollution; non-performance by third party contractors; increases in materials or labour costs; construction performance falling below expected levels of output or efficiency;
- breakdown, aging or failure of equipment or processes;
- contractor or operator errors;
- operational inefficiencies;
- labour disputes, disruptions or declines in productivity; inability to attract sufficient numbers of qualified workers; disruption in the supply of energy and utilities; and
- major incidents and/or catastrophic events such as fires, explosions or storms.

***The Company is reliant on cultivation licenses to produce medical cannabis products in Canada***

The Company's ability to grow, store and sell medical marijuana and cannabis oil in Canada is dependent on securing the appropriate licenses with Health Canada. Failure to comply with the requirements of any license application or failure to obtain the appropriate licenses with Health Canada would have a material adverse impact on the future business, financial condition and operating results of the Company. There can be no guarantees that Health Canada will issue the required licenses.

***The Company is subject to changes in Canadian laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.***

The Company's operations will be subject to various laws, regulations and guidelines relating to the manufacture, management, packaging/labelling, advertising, sale, transportation, storage and disposal of medical cannabis but also including laws and regulations relating to drug, controlled substances, health and safety, the conduct of operations and the protection of the environment. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations. The Company endeavours to comply with all relevant laws, regulations and guidelines. To the best of the Company's knowledge, the Company is in compliance or in the process of being assessed for compliance with all such laws, regulations and guidelines as described elsewhere in this prospectus.

On June 30, 2016, the Canadian Federal Government established the Task Force to seek input on the design of a new system to legalize, strictly regulate and restrict access to marijuana. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations. On April 13, 2017, the Canadian Federal Government released Bill C-45, which proposes the enactment of the Cannabis Act, to regulate the production, distribution and sale of cannabis for unqualified adult use, with a target implementation date of no later than July 1, 2018. However, it is unknown if this regulatory change will be implemented at all. Several recommendations from the Task Force reflected in the Cannabis Act including, but not limited to, permitting home cultivation, potentially easing barriers to entry into a Canadian recreational marijuana market and restrictions on advertising and branding, could materially and adversely affect the future business, financial condition and results of operations of the Company. Their advice will be considered by the Government of Canada as a new framework for recreational marijuana is developed and it is possible that such developments could significantly adversely affect the future business, financial condition and results of operations of the Company.

***The Company's business plan involves a number of strategic partnerships. If these partnerships do not materialize, the Company may be unable to sell its products.***

The Company's business plan contemplates several strategic partnerships or relationships that may not necessarily materialize in the course of the Company's business, particularly with respect to its proposed California cultivation facility. In connection therewith, the Company expects to be dependent on its strategic relationship with its real estate developer Barker Pacific Group and its greenhouse engineering consultant, Larssen Ltd. These relationships are expected to be critical to the design and construction of the Company's U.S. facilities and the development, manufacture, marketing and distribution of the Company's products. If these relationships are unsuccessful, or if the Company is unsuccessful in establishing them, the Company may be unable to effectively develop, manufacture, market and distribute its products in accordance with its business plan.

***The Company may not be able to develop its products, which could prevent it from ever becoming profitable.***

If the Company cannot successfully develop, manufacture and distribute its products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Company's ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company's commercialization plans and the Company's business, prospects, results of operations and financial condition.

***The Company's officers and directors control a large percentage of the Company's issued and outstanding Common Shares and such officers and directors may have the ability to control matters affecting the Company and its business.***

The officers and directors of the Company currently own approximately 36% of the issued and outstanding Common Shares. The Company's shareholders nominate and elect the Board of Directors, which generally has the ability to control the acquisition or disposition of the Company's assets, and the future issuance of its Common Shares or other securities. Accordingly, for any matters with respect to which a majority vote of the Common Shares may be required by law, the Company's directors and officers may have the ability to control such matters. Because the directors and officers control a substantial portion of such Common Shares, investors may find it difficult or impossible to replace the Company's directors if they disagree with the way the Company's business is being operated.

***There is no assurance that the Company will turn a profit or generate immediate revenues.***

There is no assurance as to whether the Company will be profitable, earn revenues, or pay dividends. The Company has incurred and anticipates that it will continue to incur substantial expenses relating to the development and initial operations of its business.

The payment and amount of any future dividends will depend upon, among other things, the Company's results of operations, cash flow, financial condition, and operating and capital requirements. There is no assurance that future dividends will be paid, and, if dividends are paid, there is no assurance with respect to the amount of any such dividends.

In the event that any of the Company's investments, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such investments in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

***The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.***

The Company has grown by acquisition. If the Company implements its business plan as intended, it may in the future experience rapid growth and development in a relatively short period of time. The management of this growth will require, among other things, continued development of the Company's financial and management controls and management information systems, stringent control of costs, the ability to attract and retain qualified management personnel and the training of new personnel. The Company intends to utilize outsourced resources, and hire additional personnel, to manage its expected growth and expansion. Failure to successfully manage its possible growth and development could have a material adverse effect on the Company's business and the value of the Common Shares.

***The Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the U.S.***

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- the market for the Company's products and services may depend to a significant extent upon the goodwill associated with its trademarks and trade names, and its ability to register its intellectual property under U.S. federal and state law is impaired by the illegality of cannabis under U.S. federal law;
- patents in the cannabis industry involve complex legal and scientific questions and patent protection may not be available for some or any products;
- the Company's applications for trademarks and copyrights relating to its business may not be granted

- and, if granted, may be challenged or invalidated;
- issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages;
- the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any its products or intellectual property;
- the Company's efforts may not prevent the development and design by others of products similar to or competitive with, or superior to those the Company develops;
- another party may obtain a blocking patent and the Company would need to either obtain a license or design around the patent in order to continue to offer the contested feature or service in its products; or
- the expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product and regulatory approval requirements but the impact could be material and adverse.

***The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.***

The Company may be forced to litigate to enforce or defend its intellectual property rights, to protect its trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract its management from focusing on operating the Company's business. The existence and/or outcome of any such litigation could harm the Company's business. Further, because the content of much of the Company's intellectual property concerns cannabis and other activities that are not legal in some state jurisdictions or under federal law, the Company may face additional difficulties in defending its intellectual property rights.

***The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.***

The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

Further, the administration of medical substances to humans can result in product liability claims by consumers. Product liability claims can be expensive, difficult to defend and may result in large judgments or settlements against the Company. The Company may not be able to obtain or maintain adequate insurance or other protection against potential liabilities arising from product sales. Product liability claims could also result in negative perception of the Company's products or other reputational damage which could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

***The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates.***

These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government environmental approvals and permits are currently, and may in the future be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed business activities or from proceeding with the development of its operations as currently proposed.



Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

***The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.***

An increase in the companies competing in this industry could limit the ability of the Company to expand its operations. Current and new competitors may be better capitalized, a longer operating history, more expertise and able to develop higher quality equipment or products, at the same or a lower cost. The Company cannot provide assurances that it will be able to compete successfully against current and future competitors. Competitive pressures faced by the Company could have a material adverse effect on its business, operating results and financial condition. In addition, despite Canadian federal and state-level legalization of marijuana, illicit or “black-market” operations remain abundant and present substantial competition to the Company. In particular, illicit operations, despite being largely clandestine, are not required to comply with the extensive regulations that the Company must comply with to conduct business, and accordingly may have significantly lower costs of operation.

***If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.***

The Company’s success has depended and continues to depend upon its ability to attract and retain key management, including the Company’s CEO, technical experts and sales personnel. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company’s inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company’s business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business and could limit the Company’s ability to develop and market its cannabis-related products. The loss of any of the Company’s senior management or key employees could materially adversely affect the Company’s ability to execute our business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of our employees.

***There is no assurance that the Company will obtain and retain any relevant licenses.***

If obtained, any state licenses in the U.S. are expected to be subject to ongoing compliance and reporting requirements. Failure by the Company to comply with the requirements of licenses or any failure to maintain licenses would have a material adverse impact on the business, financial condition and operating results of the Company. Should any state in which the Company considers a license important not grant, extend or renew such license or should it renew such license on different terms, or should it decide to grant more than the anticipated number of licenses, the business, financial condition and results of the operation of the Company could be materially adversely affected.

Further, the Company’s ability to grow, store and sell cannabis in Canada is dependent on the ability of the Company to obtain a license to do so from Health Canada. The Company does not currently hold a license from Health Canada and there can be no assurance that the Company will receive such a license in a timely manner, or at all. The licenses, once issued, are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements would have a material adverse impact on the business, financial condition and operating results of the Company. The Company’s proposed change to the location of SMI’s application, may also result in delayed processing time or the Company being required to submit a new application to Health Canada.

***Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company’s business strategy, may result in the Company’s inability to realize any benefit from such acquisition.***

The Company has grown by acquiring businesses, including its NHS medical clinics, CPL and its intended cultivation, processing and dispensary business, and FSD's vaporization device business. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time-consuming and, if such businesses and assets are not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

When the Company acquires cannabis businesses, it may obtain the rights to applications for licenses as well as licenses; however, the procurement of such applications for licenses and licenses generally will be subject to governmental and regulatory approval. There are no guarantees that the Company will successfully consummate such acquisitions, and even if the Company consummates such acquisitions, the procurement of applications for licenses may never result in the grant of a license by any state or local governmental or regulatory agency and the transfer of any rights to licenses may never be approved by the applicable state and/or local governmental or regulatory agency.

***The size of the Company's target market is difficult to quantify and investors will be reliant on their own estimates on the accuracy of market data.***

Because the cannabis industry is in a nascent stage with uncertain boundaries, there is a lack of information about comparable companies available for potential investors to review in deciding about whether to invest in the Company and, few, if any, established companies whose business model the Company can follow or upon whose success the Company can build. Accordingly, investors will have to rely on their own estimates in deciding about whether to invest in the Company. There can be no assurance that the Company's estimates are accurate or that the market size is sufficiently large for its business to grow as projected, which may negatively impact its financial results. The Company regularly purchases and follows market research.

***The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.***

The cannabis industry is undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

***The Company continues to sell shares for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current shareholders.***

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company.

If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. The Company's articles permit the issuance of an unlimited number of Common Shares, and shareholders will have no pre-emptive rights in connection with such further issuance. The directors of the Company have discretion to determine the price and the terms of issue of further issuances. Moreover, additional Common Shares will be issued by the Company on the exercise of options under the Stock Option Plan and upon the exercise of outstanding warrants. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt

financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Negative cash flow may restrict the Company's ability to pursue its business objectives.

If you purchase shares of our Common Shares in an offering, you will experience substantial and immediate dilution, because the price that you pay will be substantially greater than the net tangible book value per share of the Common Shares that you acquire. This dilution is due in large part to the fact that our earlier investors will have paid substantially less than a public offering price when they purchased their shares of our capital stock.

***The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there additional difficulties and complexities associated with such insurance coverage.***

The Company believes that it and its subsidiaries currently have insurance coverage with respect to workers' compensation, general liability, directors' and officers' insurance, fire and other similar policies customarily obtained for businesses to the extent commercially appropriate; however, because the Company is engaged in and operates within the cannabis industry, there are exclusions and additional difficulties and complexities associated with such insurance coverage that could cause the Company to suffer uninsured losses, which could adversely affect the Company's business, results of operations, and profitability. There is no assurance that the Company will be able to fully utilize such insurance coverage, if necessary.

***The cultivation of cannabis includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.***

The Company's future business involves the growing of medical marijuana, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that any such growing will be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

***The Company is reliant on a single location. Adverse changes affecting the Cathedral City, CA, development project could materially affect the Company's plans.***

To date, the Company's activities and resources have been primarily focused on the premises in Cathedral City, California, with future development plans in Canada with an undefined timetable. The Company expects to continue the focus on this U.S. facility for the foreseeable future. Adverse changes or developments affecting the existing facility and location could have a material and adverse effect on the Company's ability to continue producing medical marijuana, its business, financial condition and prospects.

***The cultivation of cannabis involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks.***

In order for customers of the Company to receive their product, the Company will rely on third party transportation services. This can cause logistical problems with and delays in patients obtaining their orders and cannot be directly controlled by the Company. Any delay by third party transportation services may adversely affect the Company's financial performance.

Moreover, security of the product during transportation to and from the Company's facilities is critical due to the nature of the product. A breach of security during transport could have material adverse effects on the Company's business, financials and prospects. Any such breach could impact the Company's future ability to continue operating under its licenses or the prospect of renewing its licenses.

***The Company may be subject to product recalls for product defects self-imposed or imposed by regulators.***

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to

incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

***The Company is reliant on key inputs, such as water and utilities, and any interruption of these services could have a material adverse effect on the Company's finances and operation results.***

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

***The expansion of the medical cannabis industry may require new clinical research into effective medical therapies, when such research has been restricted in the U.S. and is new to Canada.***

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, investors should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this prospectus or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

***Under California and Canadian regulations, an LP of cannabis may have restrictions on the type and form of marketing it can undertake which could materially impact sales performance.***

The development of the Company's future business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada or U.S. regulatory authorities. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. The regulatory environment in California may in the future also restrict the type and form of marketing which could limit the Company's ability to compete for market share. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

***The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses to claims against the Company.***

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by

the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks.***

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

***The Company may be subject to breaches of security at its facilities, or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.***

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the *Personal Information Protection and Electronic Documents Act* (Canada) ("PIPEDA"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company. The Company is also subject to U.S. privacy and security laws

and if the Company was found to be in violation of applicable U.S. privacy or security laws it could have a material adverse effect on the business, results of operations and financial condition of the Company.

***The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest.***

The Company may be subject to various potential conflicts of interest because some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or Companies with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, if such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

***In certain circumstances, the Company's reputation could be damaged.***

Damage to the Company's reputation can be the result of the actual or perceived occurrence of any number of events, and could include any negative publicity, whether true or not. The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share opinions and views regarding the Company and its activities, whether true or not. Although the Company believes that it operates in a manner that is respectful to all stakeholders and that it takes care in protecting its image and reputation, the Company does not ultimately have direct control over how it is perceived by others. Reputation loss may result in decreased investor confidence, increased challenges in developing and maintaining community relations and an impediment to the Company's overall ability to advance its projects, thereby having a material adverse impact on financial performance, financial condition, cash flows and growth prospects.

### **Risk Factors Specifically Related to the United States Regulatory System**

***Some of the Company's planned business activities, while believed to be compliant with applicable U.S. state and local law, are illegal under federal law.***

Although certain states and territories of the U.S. authorize medical or recreational cannabis production and distribution by licensed or registered entities, under U.S. federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts are criminal acts under federal law under any and all circumstances under the CSA. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including forfeiture of his, her or its entire investment.

Since the possession and use of cannabis and any related drug paraphernalia is illegal under U.S. federal law, the Company may be deemed to be aiding and abetting illegal activities through the contracts it has entered into and the products that it intends to provide. The Company intends to manufacture, distribute and sell medical cannabis. As a result, U.S. law enforcement authorities, in their attempt to regulate the illegal use of cannabis and any related drug paraphernalia, may seek to bring an action or actions against the Company, including, but not limited, a claim regarding the Company's possession, use and sale of cannabis, and aiding and abetting another's criminal activities. The Federal aiding and abetting statute provides that anyone who "commits an offense against the United States or aids, abets, counsels, commands, induces or procures its commission, is punishable as a principal." As a result of such an action, the Company may be forced to cease operations and its investors could lose their entire investment. Such an action would have a material negative effect on our business and operations. While the Company's plan is to develop U.S. opportunities, it does not yet have such cannabis related operations.

***There is uncertainty of existing protection from federal prosecution.***

Until September 2018, the DOJ is prohibited from expending any funds for the prosecution of medical cannabis businesses operating in compliance with state and local laws pursuant to the RBA. If the RBA or an equivalent thereof is not successfully amended to the next or any subsequent federal omnibus spending bill, the protection afforded thereby to U.S. medical cannabis businesses would lapse, and such businesses would be more at risk to prosecution under federal law. There is a possibility that all amendments may be banned from federal omnibus spending bills, and if this occurs and the substantive provisions of the RBA are not included in the base federal omnibus spending bill or other law, these protections would lapse. The Company regularly monitors the regulatory activities of Congress. Fully 62% of the combined House of Representatives and the Senate represent states with medical marijuana laws enacted or in process.

***There is uncertainty surrounding the Trump Administration and Attorney General Jeff Sessions and their influence and policies in opposition to the cannabis industry as a whole.***

There is significant uncertainty surrounding the policies of President Donald Trump and the Trump Administration about recreational and medical cannabis. Attorney General Sessions is a well-known advocate against legalization of cannabis.

Although the DOJ has stated in the *Cole Memo* that it is not an efficient use of limited resources to direct federal law enforcement agencies to prosecute those abiding by state laws allowing the use and distribution of medical cannabis, there is no guarantee that the DOJ's position in this regard will not change. Should Attorney General Sessions decide to abrogate or amend the *Cole Memo*, there is no certainty as to how the DOJ, Federal Bureau of Investigation and other government agencies will handle cannabis matters in the future. There can be no assurances that the Trump administration would not change the current enforcement policy and decide to strongly enforce the federal laws. The Company regularly monitors the activities of the current administration for evidence that it will contravene the RBA enacted by Congress.

***The Company is operating at a regulatory frontier. The cannabis industry is a new industry that may not succeed.***

Should the federal government in the U.S. change course and decide to prosecute those dealing in medical or other cannabis under applicable law, there may not be any market for the Company's products and services in the U.S.

Cannabis is a new industry subject to extensive regulation, and there can be no assurance that it will grow, flourish or continue to the extent necessary to permit the Company to succeed. The Company is treating the cannabis industry as a deregulating industry with significant unsatisfied demand for its proposed products and will adjust its future operations, product mix and market strategy as the industry develops and matures.

***The Company may not be able to obtain all necessary municipal California licenses and permits or complete construction of its facilities timely, which could, among other things, delay or prevent the Company from becoming profitable.***

Construction of the Company's proposed cultivation facility is subject to obtaining a CUP from Cathedral City, California, as well as all necessary building permits, local business licenses and other necessary local approvals, including approval of individuals associated with the Company's management in connection with cultivation, marijuana manufacturing and dispensary licenses already held by CPL, a subsidiary of the Company. There can be no certainty that the CUP or such other permits and approvals will be granted, or, if granted, will be granted within the proposed timeframe or on terms expected by the Company. If the CUP and such other permits and approvals not obtained within the proposed timeframe, the Company may not realize its expected benefits and could suffer adverse consequences, including loss of investor confidence and other material adverse effects on the Company's business.

***The Company is reliant on its cultivation licenses in Cathedral City to produce medical cannabis products in California and will be reliant on its ability to secure licenses in the State of California under MAUCRSA in the future.***

The Company's ability to grow, store and sell medical marijuana and cannabis oil in California is dependent on maintaining its licenses with Cathedral City and in securing its license with the State of California in the future. Failure to comply with the requirements of the regulators overseeing MAUCRSA would have a material adverse

impact on the future business, financial condition and operating results of the Company. There can be no guarantees the State of California will issue the license.

***The Company's operations the United States cannabis market may become the subject of heightened scrutiny.***

The Company's operations in the United States cannabis market may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to effect a trade of Common Shares through the facilities of a stock exchange.

***Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.***

The Company's business activities rely on newly established and/or developing laws and regulations in multiple jurisdictions, including in California. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Advisory or other federal, California or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or non-medical purposes in the U.S. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company's industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company. The Company is currently private and has the expected liquidity risks associated with a private company.

***Prohibition in California on "for profit" activities of the Company, on engaging in the cannabis business other than as a qualified patient member of a qualified cooperative or collective and on the non-medical use, cultivation, distribution, sale or purchase of cannabis.***

Currently, it is illegal under California law to engage in any "for profit" activities relating to the purchase and sale of cannabis and to sell, distribute or purchase cannabis for any reason other than certain medical uses, pending the implementation of SB94, pursuant to which marijuana laws regarding medical and adult use are integrated into a hybrid regulatory structure. California law also both prohibits the purchase and sale of cannabis by any person or entity who is not a member of a collective or cooperative and requires all cannabis transactions be reasonably related to the membership's qualifying medical needs. Such limitations often result in inefficiencies in operations and use of resources and could hinder, or otherwise prevent, the growth of the Company's business and of a commercially viable cannabis industry in California.

While the Company intends that one or more of its subsidiaries will be service-providers, and the Company does not consider such services as restricted from being "for profit" activities, there is no assurance that this structure will be respected by applicable governmental authorities. In the event that this structure is not respected, the Company may be prohibited from engaging in "for profit" activities.

Since investors may not be California residents or residents permitted to participate in state-legal California medical cannabis activities, if the Company is ever considered to be engaged in cannabis activities under applicable California law, since the Securities are equity investments, the Company could be deemed to be engaged in an unlawful for-profit cannabis business by an applicable governmental body.



***Uncertain impact of SB94 on license to engage in commercial cannabis activity; No assurance of success or profitability under the new legal and regulatory structure in California.***

SB94 relaxed the licensing requirements with respect to the vertical integration of licensees in California, but there are no assurances that the Company will be granted any licenses in the State of California or that its licenses granted by Cathedral City will be grandfathered into the new regulatory structure. The Company has not determined the extent to which the provisions of SB94 will impact the Company, its business and its current and future operations. While California is moving toward legalizing the sale of cannabis for medical use outside of cooperatives or collectives and the sale of cannabis for non-medical as for-profit business activities, and SB94 provides a one-year grace period for cooperatives and collectives, the regulations relating to how cannabis businesses will be required to operate in the future in California are uncertain. Accordingly, there is no way to currently anticipate what the legal climate surrounding the Company's anticipated business plan will be at any point in the future and there is no assurance that the Company will operate profitably or generate revenues or profits that will permit the payment of dividends on or any increase in the value of the Securities.

***California Legislation states that once the regulations promulgated by the Bureau and any other California state agency that may become involved, are implemented, no person can engage in commercial cannabis activity without possessing both a state license and either a local permit, license or other authorization, or otherwise in compliance with local law.***

The process associated with acquiring a state license in California may be onerous and there are no assurances that the Company will be granted any state licenses at all. Previously, all applicants for a state license were required to show proof of compliance with local laws; however, pursuant to SB94, applicants may show prior compliance with local law prior to state licensure, but the burden has shifted to the city or county to alert the state within sixty (60) business days if such applicant is not in compliance with local laws. Although the Company believes it is currently, and will continue to be, in compliance with applicable state and local laws, there is no assurance that any city or county will not alert the state of any issues regarding the Company's compliance. Further, because there are different licenses for different types of commercial cannabis activities, even if the Company is granted one or more licenses, there are no assurances that it will be granted all the licenses it will need to implement the Company's business plan. The Company is planning to engage in lobbying local and California state officials to ensure that it has adequate representation in support of a future state license grant.

***California Legislation gives priority in respect of the issuances of licenses to facilities and entities in operation and in good standing with a local jurisdiction by September 1, 2016, which is not applicable to the Company.***

The Company is only at the beginning of its initial development phase and will not be in operation to the extent necessary to receive priority for the issuances of licenses pursuant to applicable legislation.

***There are fees associated with acquiring, and renewing, licenses. However, the specific amount of such fees has yet to be determined and may vary based on several factors.***

There are no assurances that, when the applicable time comes, the Company will have the capital necessary to acquire (or continue to renew) the licenses necessary to carry out its business plan. Given the necessity of such licenses, failure to possess the necessary licenses (regardless of the reason) would have a material impact on the financial condition of the Company.

***Applicable legislation imposes state taxes on California's cannabis industry, and authorizes local jurisdictions to assess taxes and fees on such activities. There currently is no way to predict the tax regime that will apply when (and if) such legislation becomes effective.***

SB94 imposes an excise tax to be paid by the end-consumer and the dispensary; and a cultivation tax to be paid by cultivators on all harvested cannabis that enters the commercial market, in addition to any sales and use tax at the state and local level. The tax regime that is applicable to the Company's business, regardless of where the Company is in its development, will have a direct impact on its operations and profitability and, in extreme cases, may make pursuing the Company's expected business plan a futile endeavor. The Company is aware of and planning for the proposed tax structure imposed under SB94 as part of its development plans in California.

***The Company may incur significant tax liabilities if the IRS continues to determine that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the Tax Code.***

Section 280E of the Tax Code prohibits businesses from deducting certain expenses associated with trafficking controlled substances (including cannabis) which are prohibited by federal law. The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are authorized under state laws, seeking substantial sums in tax liabilities, interest and penalties resulting from under payment of taxes due to the lack of deductibility of otherwise ordinary business expenses the deduction of which is prohibited by Section 280E. Although the IRS issued a clarification allowing the deduction of certain expenses that can be categorized as cost of goods sold, the scope of such items is interpreted very narrowly and include the cost of seeds, plants and labor related to cultivation, while the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. The Company's current financial plans include federal tax payable on gross profit rather than is typical in other jurisdictions on earnings before tax.

***Under currently applicable law, the Company anticipates that it will be able to convert its current cooperative corporation structure into a "for-profit" corporate structure when California authorizes for-profit business cannabis activities; however, there are no assurances of what the legal climate will be in the future and if California will ever authorize such business activity.***

Currently, the Company uses a cooperative corporation structure to comply with existing California law in providing cannabis products to consumer patients, with one or more subsidiaries providing management services to such cooperative corporation. The Company does not consider such services as restricted from being "for profit" activities, but there is no assurance that this structure will be respected by applicable governmental authorities. The Company believes that once "for-profit" cannabis activities are permitted in California, it will be able to merge or otherwise convert its affiliated cooperative corporation with or into to a "for-profit" corporation; however, there is no guaranty that any such merger, conversion or other reorganization will be permitted under future applicable law. The Company is regularly monitoring changes to applicable law and will respond to ensure it remains compliant in all circumstances.

***State and local laws and regulations may heavily regulate brands and forms of cannabis products and there is no guarantee that the Company's proposed products and brands will be approved for sale and distribution in any state.***

States generally only allow the manufacture, sale and distribution of cannabis products that are grown in that state and may require advance approval of such products. Certain states and local jurisdictions have promulgated certain requirements for approved cannabis products based on the form of the product and the concentration of the various cannabinoids in the product. While the Company intends to follow the guidelines and regulations of each applicable state and local jurisdiction in preparing products for sale and distribution, there is no guarantee that such products will be approved to the extent necessary. If the products are approved, there is a risk that any state or local jurisdiction may revoke its approval for such products based on changes in laws or regulations or based on its discretion or otherwise. Following guidance under the *Cole Memo*, the Company is not planning on the export of cannabis products beyond California. In the event the Company expands into other U.S. jurisdictions, it plans to undertake no cross-border commerce between states until the federal regulatory environment permits such commerce to occur.

***The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate.***

In February 2014, the Financial Crimes Enforcement Network ("FinCEN") bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the DOJ, FinCEN or other federal regulators. Thus, most banks and other financial institutions do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial

services in the U.S., and may have to operate the Company's U.S. business on an all-cash basis. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments, may make it difficult for the Company to operate and conduct its business as planned. The Company is actively pursuing alternatives that ensure its operations will continue to be compliant with the FinCEN guidance and existing disclosures around cash management and reporting to the IRS once it moves from development into production.

***Due to the classification of cannabis as a Schedule I controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes.***

Because the manufacture, distribution, and dispensation of cannabis remains illegal under the CSA, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the U.S. Bank Secrecy Act. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the CSA. The Company may also be exposed to the foregoing risks.

***Any re-classification of cannabis or changes in U.S. controlled substance laws and regulations may affect the Company's business.***

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be simpler and more accessible; however, if cannabis is re-categorized as a Schedule II or other controlled substance, and the resulting re-classification would result in the requirement for FDA approval if medical claims are made for the Company's products such as medical cannabis. As a result, the manufacture, importation, exportation, domestic distribution, storage, sale and use of such products may be subject to a significant degree of regulation by the DEA. In that case, the Company may be required to be registered (licensed) to perform these activities and have the security, control, recordkeeping, reporting and inventory mechanisms required by the DEA to prevent drug loss and diversion. Obtaining the necessary registrations may result in delay of the manufacturing or distribution of the Company's anticipated products. The DEA conducts periodic inspections of certain registered establishments that handle controlled substances. Failure to maintain compliance could have a material adverse effect on the Company's business, financial condition and results of operations. The DEA may seek civil penalties, refuse to renew necessary registrations, or initiate proceedings to restrict, suspend or revoke those registrations. In certain circumstances, violations could lead to criminal proceedings. Furthermore, if the FDA, DEA, or any other regulatory authority determines that the Company's products may have potential for abuse, it may require the Company to generate more clinical or other data than the Company currently anticipates establishing whether or to what extent the substance has an abuse potential, which could increase the cost and/or delay the launch of that product. The Company is planning to construct cGMP-compliance facilities in both Canada and California which meet or exceed most regulatory requirements.

***CBD classified as Schedule I controlled substance. The DEA recently published a final rule in the Federal Register creating a new drug code for "marihuana extracts".***

In connection with the new drug code, the DEA has determined that all CBD products, regardless of origin, shall be considered Schedule I controlled substances. The Company is unable to determine what the impact of this will be on its business.

***U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.***

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the CSA, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

***The Company's contracts may not be legally enforceable in the U.S.***

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

### **Risks Related to Our Securities**

***The Company cannot assure you that a market will continue to develop or exist for our Common Shares or what the market price of our Common Shares will be.***

Prior to our listing, there was no public trading market for our Common Shares, and we cannot assure you that one will continue to develop or be sustained. If a market does not continue to develop or is not sustained, it may be difficult for you to sell your shares of Common Shares at an attractive price or at all. We cannot predict the prices at which our Common Shares will trade.

***The Company will be subject to additional regulatory burden resulting from its public listing on the CSE.***

Prior to the Offering, the Company has not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the CSE or other stock exchange. We are working with our legal, accounting and financial advisors to identify those areas in which changes should be made to our financial management control systems to manage our obligations as a public company. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal controls over financial reporting. However, we cannot assure purchasers of Common Shares that these and other measures that we might take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. We cannot predict the amount of the additional costs that we might incur, the timing of such costs or the impact that management's attention to these matters will have on our business.

***The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control.***

The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control, including the following:

- actual or anticipated fluctuations in our quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which we operate;
- addition or departure of our executive officers and other key personnel;
- release or expiration of lock-up or other transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- operating and share price performance of other companies that investors deem comparable to us;
- fluctuations to the costs of vital production materials and services;

- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies;
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in our industry or target markets; and
- regulatory changes in the industry.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if our operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which might result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, our operations could be adversely affected and the trading price of the Common Shares might be materially adversely affected.

***The Company is subject to uncertainty regarding legal and regulatory status and changes.***

Achievement of the Company's Canadian and U.S. business objectives is also contingent, in part, upon compliance with other regulatory requirements enacted by governmental authorities and obtaining other required regulatory approvals. The regulatory regime applicable to the cannabis business in Canada and the US is currently undergoing significant proposed changes and the Company cannot predict the impact of the regime on its business once the structure of the regime is finalized. Similarly, the Company cannot predict the timeline required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failing to obtain, required regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company. The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

***The Company does not anticipate paying cash dividends.***

Our current policy is to retain earnings to finance the development and enhancement of our products and to otherwise reinvest in the Company. Therefore, we do not anticipate paying cash dividends on the Common Shares in the foreseeable future. Our dividend policy will be reviewed from time to time by the Board of Directors in the context of our earnings, financial condition and other relevant factors. Until the time that we do pay dividends, which we might never do, our shareholders will not be able to receive a return on their Common Shares unless they sell them. See "Dividend Policy".

***Future sales of Common Shares by existing shareholders could reduce the market price of the Company's shares.***

Sales of a substantial number of Common Shares in the public market could occur at any time. These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of our Common Shares. Additional Common Shares may be available for sale into the public market, subject to applicable securities laws, which could reduce the market price for Common Shares. Holders of options will have an immediate income inclusion for tax purposes when they exercise their options (that is, tax is not deferred until they sell the underlying Common Shares). As a result, these holders may need to sell Common Shares purchased on the exercise of options in the same year that they exercise their options. This might result in a greater number of Common Shares being sold in the public market, and fewer long-term holds of Common Shares by our management and employees.

*No guarantee on the use of available funds by the Company.*

We cannot specify with certainty the particular uses of the proceeds. Management has broad discretion in the application of our proceeds, including for any of the purposes described in “*Use of Proceeds*”. Accordingly, a purchaser of Common Shares will have to rely upon the judgment of management with respect to the use of proceeds, with only limited information concerning management’s specific intentions. Our management may spend a portion or all of the proceeds in ways that our shareholders might not desire, that might not yield a favourable return and that might not increase the value of a purchaser’s investment. The failure by management to apply these funds effectively could harm our business. Pending use of such funds, we might invest the proceeds in a manner that does not produce income or that loses value.

#### **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS**

The Company encourages each security holder to consult with its own tax or professional to understand the tax considerations generally applicable with purchasing or owning the Qualified Shares.

#### **PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal adviser.

#### **CONTRACTUAL RIGHT OF RESCISSION**

The Company has granted to each holder of a Special Warrant a contractual right of rescission of the prospectus-exempt transaction under which the Special Warrant was initially acquired. The contractual right of rescission provides that if a holder of a Special Warrant who acquires Qualified Shares on the exercise or deemed exercise of the Special Warrant as provided for in this prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of this prospectus or an amendment to this prospectus containing a misrepresentation,

- (a) the holder is entitled to rescission of both the holder’s exercise or deemed exercise of its Special Warrant and the private placement transaction under which the Special Warrant was initially acquired,
- (b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the Company on the acquisition of the Special Warrant, and
- (c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

#### **LEGAL PROCEEDINGS**

The Company and its subsidiaries may from time to time be involved in legal proceedings of a nature considered normal to our business. We believe that none of the litigation in which we are currently involved, or have been involved since the beginning of the most recently completed financial year, individually or in the aggregate, is material to our consolidated financial condition or results of operations.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the Company are MNP LLP of 1500, 640 – 5<sup>th</sup> Avenue S.W., Calgary, Alberta.

The transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. in Calgary, Alberta.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts entered into by the Company since the beginning of the last financial year, or before the beginning of the last financial year that are still in effect, which may be regarded as material, are as follows:

1. Agency Agreement between the Company and the Agents dated June 27, 2017. See “*Plan of Distribution*” for more information.
2. Membership Interest Purchase Agreement among Edward Wong, the sole member of FSD and SFSD dated February 10, 2017.
3. Share Purchase Agreement among NHS and the shareholders of NHS and the Company dated February 8, 2017.
4. Membership Interest Purchase Agreement among Jim Kunevicius and Edlin Kim, the Members of CPL and the Company dated November 17, 2016.

Copies of the material contracts set out above will be available under the Company’s profile on SEDAR at <http://www.sedar.com>.

## EXPERTS

No person or company whose profession or business who is named as having prepared or certified a report, valuation, statement or opinion described or included in the prospectus, or whose profession or business gives authority to a report, valuation, statement or opinion described or included in the prospectus, holds any registered or beneficial interest, direct or indirect, in any of the Company’s securities or other property of the Company or one of the Company’s associates or affiliates and no such person or company, or a director, officer or employee of such person or company, is expected to be elected, appointed or employed as one of the Company’s directors, officers or employees or as a director, officer or employee of any of the Company’s associates or affiliates and no such person is one of the Company’s promoters or the promoter of one of our associates or affiliates. The Company’s current auditors are MNP LLP. MNP LLP has informed us that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants. Borden Ladner Gervais LLP is Canadian legal counsel to the Company. As of the date hereof, the “designated professionals” (as defined in Form 51-102F2 – Annual Information Form) of Borden Ladner Gervais LLP do not own more than 1% of the issued and outstanding Common Shares. McMillan LLP is Canadian legal counsel to the Agents. As of the date hereof, the “designated professionals” of McMillan LLP do not own more than 1% of the issued and outstanding Common Shares.

## MANAGEMENT’S DISCUSSION AND ANALYSIS

### *Annual Management’s Discussion and Analysis*

*This management discussion and analysis (“MD&A”) of the financial condition and results of operations of the Company is for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014. It is supplemental to, and should be read in conjunction with the Consolidated Financial Statements and the accompanying notes for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014.*

*The Consolidated Financial Statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board. All amounts presented herein are stated in Canadian dollars, unless otherwise indicated. Additional information regarding the Company will be available on our website at [www.sunniva.com](http://www.sunniva.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

*In this MD&A, reference is made to EBITDA, which is not a measure of financial performance under IFRS. The Company calculates EBITDA as follows:*

- *EBITDA is net income(loss), plus (minus) income tax expense (recovery) plus (minus) finance expense (income), plus amortization, plus share-based compensation, plus (minus) non-cash fair value adjustments, plus amortization of non-capital assets, plus impairment of intangible assets, plus (minus) loss (gain) on marketable securities, and plus certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and is a close proxy for repeatable cash generated by operations.*

*This measure is not necessarily comparable to similarly titled measures used by other companies.*

*This MD&A is prepared as of September 25, 2017.*

## **Company Overview**

The Company is a Canadian incorporated private biopharmaceutical corporation with operations in Canada and California. As at December 31, 2016, The Company holds four wholly owned subsidiaries: SMI (Canada); STC (Canada); and CPL (North Carolina). In addition, SHM (Delaware), is a wholly owned subsidiary of SMI.

## **Overall Performance**

- Executive team
  - The executive team has been involved in the pharmaceutical, medical devices, medical services, medical clinics and medical care industries since 1979
  - Subsequent to December 31, 2016, the Company has hired a new Chief Financial Officer and Corporate Controller; and promoted its Chief Strategy Officer to President of the Company.
- Anticipated future potential capacity through the Company's land acquisition and land purchase rights in California; and its relationship with the Osoyoos Indian Band with its land holdings in Oliver, BC, the proposed location of the Company's cGMP compliant greenhouse.
- Capitalization via the 2016 Private Placement and subsequent capitalization via a brokered private placement and a concurrent non-brokered private placement in the United States. The Company undertook its first closing of the brokered private placement on June 27, 2017 of \$5.9 million and the Company is seeking up to \$25 million in total.
- Subsequent to December 31, 2016, the Company reported revenue of \$5.7 million for the six months ended June 30, 2017.

## **Going Concern**

The Company is a development stage company and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offering in the medical cannabis industry and enter into a revenue producing stage.

The consolidated financial statements were prepared on a going concern basis and assume 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 through December 31, 2016 and has not generated significant revenue from operations. As at December 31, 2016, the Company has an accumulated deficit of \$10 million and incurred a net loss of \$6.9 million for the year-ended December 31, 2016. The Company also had a working capital deficit of \$1.6 million which includes \$9.3 million in secured convertible debentures. The debentures have a forced conversion upon the listing of the Company on the TSX-V or other Canadian securities exchange (if approved by the holders) and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US \$2.55 per Common Share. If converted, the Company's working capital would have been a surplus of \$7.7 million at December 31, 2016.

The Company's ability to continue as a going concern is dependent upon its ability 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 as a source of financing the operations of the Company, however



there can be no certainty that such funds or additional financings will be available on a timely basis and at terms acceptable to the Company, or at all.

### Selected Annual Information

The following table sets forth selected audited financial information of the Company from the last three completed financial periods ended December 31:

	For the year ended		
	December 31, 2016	December 31, 2015	December 31, 2014 <sup>1</sup>
	(\$000s)	(\$000s)	(\$000s)
Total revenue	\$ 38	\$ -	\$ -
Net (loss) income for the year	(6,887)	(1,913)	(1,236)
Basic and diluted loss per common share <sup>2</sup>	0.41	0.18	0.13
Total assets	\$ 25,663	\$ 1,318	N/A
Current liabilities	11,418	2,073	N/A
Total non-current financial liabilities	-	-	N/A

1. This data is for the period from the date of incorporation on August 11, 2014 to December 31, 2014.

2. No dividends were declared during the reporting period.

The table below summarizes the Company's cash flows for the years ended December 31, 2016 and 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014:

	Year ended		For the period from
	(\$000s)	December 31, 2016	Year ended December 31, 2015 inception on August 11, 2014 to December 31, 2014
Net cash provided (used in)			
Operating activities	(4,535)	(2,974)	(823)
Financing activities	20,587	2,308	1,581
Investing activities	(6,519)	(51)	-
Effect of foreign exchange on cash and cash equivalents	39	-	-
Increase (decrease) in cash	9,572	(717)	758
Cash and cash equivalents beginning of period	41	758	-
Cash and cash equivalents end of period	9,613	41	758

Cash and cash equivalents as at December 31, 2016 was \$9.6 million, which was \$9.6 million higher than the prior year balance of \$41,000 as at December 31, 2015. Increase in cash and cash equivalents during the year was due primarily to private placement financing and loans from shareholders which was offset by operating losses, capital investment including the purchase of land at Ramon Road and the acquisition of CPL.

As the accompanying financial statements for the years ending December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014 were the first financial statements prepared by the Company, no quarterly data has been reported.

### Summary of Results

There were no material revenues generated from the date of incorporation on August 11, 2014 through to December 31, 2014 and for the year ended December 31, 2015. In the year ended December 31, 2016, \$38,000 in revenue was generated from the assets gained in the Unwound Transaction.

The primary factors affecting the magnitude and variations of the Company's losses are as follows:

- In 2014, the Company incurred \$527,000 in wages, salaries and consultant costs; \$468,000 in development costs; and \$143,000 in accounting and legal costs in SMI
- In 2015, the Company incurred \$835,000 in wages, salaries and consultant costs; \$513,000 in development costs; and \$184,000 in travel expenses in SMI. It also incurred \$269,000 in accounting and legal costs and \$60,000 in finance expenses on a consolidated basis between the Company and SMI.
- In 2016, the Company incurred \$2.1 million in costs related to the reversal of the Unwound Transaction. On a consolidated basis, the Company incurred \$2.0 million in wages, salaries and consultant costs; \$854,000 in finance expenses, \$805,000 in rent and utilities, \$314,000 in development costs; \$228,000 in travel and \$221,000 in accounting and legal costs.

The Company is a development stage company. Increases show trends of expansion and increased activity over the reporting periods.

### **Discussion of Operations**

The Company incurred a net loss of \$6.9 million, \$1.9 million and \$1.2 million in each of the years ended December 31, 2016 and December 31, 2015 and for the period from incorporation on August 11, 2014 to December 31, 2014, respectively. The net loss increased from the year ended December 31, 2015 to the years ended December 31, 2016 by \$5.0 million.

The key components contributing to the change in net loss from the year ended December 31, 2015 compared to the year ended December 31, 2016 was comprised of the following:

- Expenses related to the Unwound Transaction reversal of \$2.1 million in 2016, additional rent expense of \$805,000 related to the Goleta Facility Lease in the county of Santa Barbara, California, and higher advertising and promotions expense of \$135,000 tied to the Unwound Transaction compared to the prior year.
- An increase in costs related to wages, salaries and consulting of \$1.1 million and an increase in travel costs of \$44,000 due to the increase in resources required to pursue acquisitions in Canada and California.
- An increase of \$794,000 in finance expenses due in large part to a charge of \$831,000 to accretion expense from the discount on interim financing arrangements in 2016. The interim financing arrangements contained a discount as a result of warrants issued in conjunction with the loans.
- Licensing fees of \$143,000 incurred during 2016 that did not occur in the prior period for the Company's application process in Cathedral City, California.

### **Liquidity**

As at December 31, 2016, the Company had \$9.8 million in current assets (December 31, 2015 current assets - \$1.3 million) and had a working capital deficit of \$1.6 million (December 31, 2015 working capital deficit - \$806,000).

The Company raised \$1.1 million through the issuance of Common Shares during the period from incorporation August 11, 2014 to December 31, 2014 with share issuance costs of \$18,000. It further raised \$1.4 million during the year ended December 31, 2015; repurchased 160,000 Common Shares for \$200,000; and had share issuance costs of \$8,000 for net capital of \$1.2 million.

During the year ended December 31, 2016, the Company issued Common Shares by way of the 2016 Private Placement totalling \$19.9 million and settled shareholder loans and debt with the issuance of Common Shares totalling \$3.0 million with share issuance costs of \$1.2 million and \$328,000 in finders' warrants. The Company also issued \$9.8 million in Common Shares for the Unwound Transaction and then recovered them during the same period. The net capital change was \$21.5 million.

Subsequently, the Company issued additional Common Shares in 2017, as part of the 2016 Private Placement, totalling \$4.5 million.

The Company is dependent on raising additional equity capital to carry on its business operations for the next 12 months. As at December 31, 2016, the Company had \$9.6 million in cash on hand. There is no guarantee that the Company will be able to raise the additional equity capital required to fund its ongoing operations.

Other than the Goleta Facility Lease, as at December 31, 2016 the Company had no fixed payment contracts with management, personnel, landlords or any other party and accordingly could operate with very little working capital needs.

### Capital Resources

On March 1, 2016, the Company commenced a five-year lease agreement for the Goleta Facility Lease. Monthly payment of rent and estimated operating costs (additional rent) is \$42 (USD\$31) in the first year with base rent increasing by 3% per annum. The Goleta Facility Lease is guaranteed by Anthony Holler, the Company's Chairman and CEO. The outstanding obligation as at December 31, 2016 was \$2.1 million as per the following schedule:

(\$000s)

2017	\$519
2018	534
2019	550
2020	452
Thereafter	-
Total	<u>\$2,055</u>

The Company has determined not to use the facility for the purpose originally intended and has engaged an agent to sub-lease or re-lease the property. The Goleta Facility Lease was therefore classified as onerous and the Company used a pre-tax discounted cash flow method at an 18% discount rate to determine the provision for this onerous lease. The provision of \$202,000 was recognized in the year ended December 31, 2016.

Subsequently, as at June 30, 2017, the Company's total outstanding lease commitments and provisions increased due to the facilities leases held by NHS as follows:

(\$000s)

2017	\$567
2018	1,116
2019	1,382
2020	1,326
Thereafter	-
	<u>3,825</u>
	<u>\$8,216</u>

The lease commitments include the Goleta Facilities Lease, leases in Cathedral City, California on Perez Road; medical clinics, office space and education centres for NHS in Alberta, Saskatchewan, Manitoba and Ontario; and a commitment for the Company's Calgary-based corporate offices.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### Legal Proceedings

The Company is not aware of any legal proceedings or claims where there is at least a reasonable possibility that a material loss may be incurred.

### Transactions Between Related Parties

The Company's related parties, as defined by IAS 24, Related Party Disclosures, include the Company's controlling shareholders, directors, executive officers, key management personnel, and enterprises.

The Company considered the executive officers and directors as the key management of the Company.

Total compensation of key Company personnel for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014 is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Consulting fees and wages	\$747,000	\$240,000	\$346,000

On September 15, 2014, the Company hired a President to run its operations. The President was subsequently released from his duties on March 31, 2015. In addition to wages payable, the President received \$84,000 in severance pay.

On August 11, 2014, the Company hired a Chief Financial Officer. The Chief Financial Officer was subsequently released from her duties on March 31, 2015. In addition to wages payable, the Chief Financial Officer received \$24,000 in severance pay.

On February 28, 2016, the Company hired a President to run its operations. The President was subsequently released from his duties on June 30, 2016. In addition to wages payable, the President received \$131,000 in severance pay.

During the periods, no Director's fees were paid and there was no share-based compensation.

Amounts due to related parties is as follows as at December 31:

	Year ended December 31, 2016	Year ended December 31, 2015
Consulting fees and wages	\$27,000	\$62,000
Loans from shareholders	\$336,000	\$1,554,000

Except as listed below, no related party had any material interest, direct or indirect, in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

The Company entered into the Goleta Facilities Lease. Dr. Anthony Holler, Chairman and CEO, has guaranteed the Goleta Facility Lease on behalf of the Company with an estimated liability as at December 31, 2016 of \$2.1 million.

As at December 31, 2016, Robert Mills Alter Ego Trust 1, a shareholder of the Company, held a promissory note for \$336,000 including accrued interest. The note was converted into Common Shares subsequent to December 31, 2016.

Subsequently, Daniel Vass, Director and President of NHS, holds a secured promissory note payable by the Company of \$451,000 resulting from his sale of NHS shares to the Company on February 8, 2017. The note was paid in full by the Company on August 8, 2017.

Michael Barker, Director as at July 27, 2017, has a material interest in the Barker Pacific Group. The Company has entered into a memorandum of understanding with the Barker Pacific Group for the construction of an industrial/warehouse/office facility in Cathedral City, California. The total estimated cost to the Company for the facility is US\$50 million. Mr. Barker's interest in the transaction is expected to be 10%.

Luke Stanton, Director as at July 27, 2017, acts as the Company's U.S. counsel and as such has an interest in transactions considered or conducted by the Company. Mr. Stanton is also a Partner in Skytree Capital Partners, a shareholder in the Company.

### **Critical Accounting Estimates**

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the fair value measurements for inventory, estimated useful lives and depreciation of property, plant and equipment, valuation of intangibles, and valuation of convertible instruments.

### Changes in Accounting Policies Including Initial Adoption

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended December 31, 2016, and have not been applied in preparing the financial statements.

- IFRS 9 – Financial Instruments: IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively.
- IFRS 15 – Revenue from contracts with customers: IFRS 15 is effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 – Leases: IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

### Financial Instruments and Other Instruments

#### *Fair Values*

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at December 31, 2016 as follows:

(\$000s)	Fair Value Measurements Using			Balance, December 31, 2016
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Cash and Cash Equivalents	9,613	-	-	9,613
Secured convertible promissory notes	-	-	9,333	9,333
Warrant liability	-	-	764	764
<b>Total</b>	<b>9,613</b>	<b>-</b>	<b>10,097</b>	<b>19,710</b>

The fair values of other financial instruments, which include amounts receivable, loan receivable, accounts payable and accrued liabilities, and loans from shareholders approximate their carrying values due to the relatively short-term maturity of these instruments.

#### *Credit Risk*

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions in Canada and the U.S. Accounts receivable consists of expense recoveries receivable and GST receivable.

### *Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has appropriate liquidity to meet its operating and growth objectives. The Company maintained cash at December 31, 2016 in the amount of \$9.6 million and raised additional capital by selling equity to meet short-term operating requirements. As at December 31, 2016, the Company had accounts payable and accrued liabilities of \$783,000. All accounts payable and accrued liabilities are current.

### *Currency Risk*

Currency risk is the risk that the fair value of future cash flows or of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk to the extent that it has monetary assets and liabilities denominated in foreign currencies, particularly the United States dollar.

As at December 31, 2016, the Company had the following financial instruments denominated in foreign currencies:

	USD\$000s	CDN\$000s Equivalent
Cash	4	6
Secured convertible promissory notes plus accrued interest	7,002	9,333
	7,008	9,339

Based on the above net exposures as at December 31, 2016, a 10% change in the US dollar against the Canadian dollar would result in an increase or decrease of approximately \$700,000 in the Company's net loss.

The Company manages currency risk by minimizing the value of financial instruments denominated in foreign currencies. The Company has not entered into any foreign currency contracts to mitigate this risk.

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash is held in bank accounts and therefore there is currently minimal interest rate risk. The convertible promissory notes bear interest at a fixed rate 0.5% per annum and therefore there is currently no fluctuation due to market interest rates.

### **Outstanding Share Data**

The Company's authorized share capital consists of an unlimited number of Common Shares without par value.

As at the date of this MD&A, the Company had 25,528,663 (December 31, 2016 - 18,272,959) Common Shares issued and outstanding. In addition, the Company had 3,120,000 (December 31, 2016 - nil) stock options outstanding, 946,614 (December 31, 2016 - 828,239) warrants outstanding, 983,753 (December 31, 2016 - nil) Special Warrants outstanding, 11,112 (December 31, 2016 - nil) Corporate Finance Fee Special Warrants outstanding and 59,596 (December 31, 2016 - nil) Broker Special Warrants outstanding.

Subsequently, the Board of Directors approved a stock option plan for key employees, consultants and directors to present to the shareholders at the Company's annual general meeting. The Board of Directors authorized 3,784,600 options for the purchase of Common Shares. Subsequently, the option plan was presented to a meeting of the shareholders of the Company on July 27, 2017 and the option plan was approved by the shareholders.

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decision-making regarding

required disclosures. The Company's CEO and CFO have concluded that information required to be disclosed in the Company's consolidated financial statements and MD&A have been disclosed and fairly presented in the filings and that processes are in place to provide them with sufficient knowledge to support such representation. However, a control system, no matter how well conceived, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Management's Responsibility For Financial Statements**

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable.

The Board of Directors follow recommended corporate guidelines for public companies to ensure transparency and accountability to shareholders. The Board of Directors meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The Company's management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a private company to design and implement on a cost-effective basis disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as defined in NI 52-109 *Certification of Disclosure in Issuer's Annual and Interim Filings* ("NI 52-109") may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation as applicable to a private company. It is the Company's intent to become a venture issuer and these limitations will apply as a venture issuer as well.

In contrast to the certificate required for non-venture issuers under NI 52-109, the Company files the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of DC&P and ICFR. The certifying officers are not making any representations relating to the establishment and maintenance of:

1. Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislations; and
2. A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

### **Conflicts of Interest**

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the CBCA dealing with conflicts of interest. The Canadian corporate statutes specifically require each director (and officer) to disclose in writing (or request to have entered in the minutes of the board meeting) the nature and extent of the director's interest in a material contract or transaction or in a proposed one with the corporation. The statutes further require the director to refrain from voting on a resolution to approve the contract or transaction except in narrow circumstances as defined in the act. In all circumstances, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

### **Additional Information**

Additional information related to the Company will be available for view on the Company's website at [www.sunniva.com](http://www.sunniva.com).

## ***Interim Management's Discussion and Analysis***

*This MD&A of the financial condition and results of operations of the Company is for the three and six months ended June 30, 2017 and 2016. It is supplemental to, and should be read in conjunction with the Interim Financial Statements.*

*The Interim Financial Statements are prepared in accordance with IFRS. All amounts presented herein are stated in Canadian dollars, unless otherwise indicated. Additional information regarding the Company will be available on our website at [www.sunniva.com](http://www.sunniva.com) or through the SEDAR website at [www.sedar.com](http://www.sedar.com).*

*In this MD&A, reference is made to EBITDA, which is not a measure of financial performance under IFRS. The Company calculates each as follows:*

- *EBITDA is net income(loss), plus (minus) income tax expense (recovery) plus (minus) finance expense (income), plus amortization, plus share-based compensation, plus (minus) non-cash FV adjustments, plus amortization of non-capital assets, plus impairment of intangible assets, plus (minus) loss (gain) on marketable securities, and certain one-time non-operating expenses, as determined by management. Management believes this measure provides useful information as it is a commonly used measure in the capital markets and as it is a close proxy for repeatable cash generated by operations.*

*These measures are not necessarily comparable to similarly titled measures used by other companies.*

*All amounts in this MD&A are expressed in Canadian dollars unless where otherwise indicated.*

*This MD&A is prepared as of September 25, 2017.*

## **Company Overview**

The Company is a Canadian incorporated private biopharmaceutical corporation with operations in Canada and California. As at June 30, 2017, the Company holds ten (10) wholly owned subsidiaries including: SMI (Canada); STC (Canada); CPL (North Carolina), NHS (Alberta), and SCH (California). In addition, SMH (Delaware) is a wholly owned subsidiary of SMI, which in turn holds 100% of the shares in SFSD (California), which in turn holds 100% of the membership units in FSD (Florida). NHS has a wholly owned subsidiary 196 for purposes of developing and licensing its proprietary SPARK branded software. SCH also owns 100% of the membership units in SPL (California). The Company has also formed CCGC for the production of cannabis in California that licenses its operations through CPL and uses the services of SPL.

## **Overall Performance**

- Executive team
  - The executive team has been involved in the pharmaceutical, medical devices, medical services, medical clinics and medical care industries since 1979.
  - Since December 31, 2016, the Company has hired a new Chief Financial Officer and Corporate Controller; and promoted its Chief Strategy Officer to President of the Company.
- Future potential capacity through the Company's land acquisition and land purchase rights in California; and through its relationship with the Osoyoos Indian Band with its land holdings in Oliver, BC, the intended location of the Company's Canadian license application.
- Capitalization via a brokered private placement and a concurrent non-brokered private placement in the United States. The Company undertook its first closing during the period under this offering of \$5.9 million and is seeking up to \$25 million in total.
- The Company reported revenue of \$5.7 million for the six months ending June 30, 2017.

## **Going Concern**

The Company is considered a development stage company and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offering in the medical cannabis industry and grow its revenue.



The consolidated financial statements were prepared on a going concern basis and assume 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 through June 30, 2017 and, although it has begun to generate revenue during the past five months, revenue is insufficient to cover the costs of operations. As at June 30, 2017, the Company has an accumulated deficit of \$22.1 million and incurred a net loss of \$12.0 million for the six months ended June 30, 2017. The Company also had a working capital deficit of \$10.0 million which includes \$19.5 million in secured convertible debentures and \$2.2 million in warrant liability adjusted for their present value under IFRS. The debentures have a forced conversion upon the listing of the Company on the TSX-V or equivalent exchange and have been trading for a period of at least thirty days at an average price equal to or in excess of USD\$2.55 per Common Share. Such conversion would result in a working capital surplus of \$1.8 million.

### Adjusted Working Capital as at June 30, 2017

(000s)

Current assets	\$	15,510
Current liabilities		<u>25,563</u>
Working capital as per statement of financial position		(10,053)
Adjustments for:		
Plus: Warrant liability		2,152
Plus: Valuation adjustment (Note 10 of the financial statements)		7,478
Less: Assets held for sale		<u>(7,722)</u>
<b>Net working capital</b>	<b>\$</b>	<b><u>(8,145)</u></b>

The Company's ability to continue as a going concern is dependent upon its ability to grow its revenue and achieve profitable operations, to convert its debentures into shares, liquidate assets 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 as a source of financing the operations of the Company, however there can be no certainty that such funds will be available on a timely basis and at terms acceptable to the Company, or at all.

### Selected Quarterly Information

The following table sets forth selected unaudited financial information of the Company for the three and six months ended June 30, 2016 and 2017:

	For the three months ended		For the six months ended					
	(000s)	June-30-17	June-30-16	June-30-17	June-30-16			
Total revenue	\$	3,280	\$	-	\$	5,653	\$	-
Net (loss) income for the period		11,069	3,260	12,022	4,575			
Basic and diluted loss per share share		0.43	0.16	0.50	0.23			

	As at			
	(000s)	June 30, 2017	December 31, 2016	
Total assets	\$	60,764	\$	25,663
Current liabilities		25,563		11,418
Total non-current financial liabilities		-		-
Shareholder's equity		31,035		14,425

The table below summarizes the Company's cash flows for the years ended March 31, 2017 and 2016:

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
	<i>(000s)</i>		
Net cash provided (used in)			
Operating activities	(4,535)	(2,974)	(823)
Financing activities	20,587	2,308	1,581
Investing activities	(6,519)	(51)	-
Effect of foreign exchange on cash and cash equivalents	39	-	-
Increase (decrease) in cash	9,572	(717)	758
Cash and cash equivalents beginning of period	41	758	-
Cash and cash equivalents end of period	9,613	41	758

Cash and cash equivalents as at June 30, 2017 was \$4.3 million, which was \$4.3 million higher than the balance of \$10,000 as at June 30, 2016. Increase in cash and cash equivalents during the year due primarily to the private placement financing and placement of Special Warrants, which was offset by operating losses, capital investment and the purchase of land at Ramon Road.

During the period, the fair value of the Company's secured promissory notes and warrant liability increased by \$8.9 million due to its recent financing activities. The secured promissory notes included in the Interim Financial Statements consist of three sets of notes: the CPL Notes; the FSD Note; and the NHS Notes.

The CPL Notes and the FSD Note are compound financial instruments. Although the issue and repayment amount are fixed in United States dollars, when converted back to the Company's functional currency they result in a variable amount of cash and a variable carrying amount for the financial liability that arises from changes in U.S. to Canadian exchange rates. The conversion feature is therefore a derivative liability. The Company has elected to use the fair value option method and valued the embedded derivative and instrument collectively at fair value.

The fair value of the CPL Notes and the FSD Note were determined on the date of the grant and at June 30, 2017. Since the date of grant, and a price on conversion of USD\$2.55 per share resulting from conversion, the Company closed a tranche of its offering of Special Warrants priced at \$6.75 per Special Warrant which convert to Common Shares on a one-to-one ratio. The increase in price per converted share impacted the revaluation of the convertible notes, using the Black-Scholes option pricing method, and contributed to the increase in fair value. This accounting treatment also impacted the warrant liability.

On a comparative basis, after eliminating the revaluation expense, the net loss for the six months ended June 30, 2017 was \$3.6 million and \$0.15 per share when compared to a net loss of \$4.6 million and \$0.23 per share for the six months ended June 30, 2016.

As the Company's initial audit and financial reporting was conducted for the years ending December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014, no prior quarterly results have been reported with the exception of those within the accompanying Interim Financial Statements.

## Summary of Results

During the period, the Company entered into its first two quarters of revenue generation with a total \$5.7 million in revenue for the six months ending June 30, 2017. Revenue was generated from its two acquisitions during the period, NHS and FSD, which contributed \$4.1 million and \$1.5 million in revenue respectively. Net loss for the six months ending June 30, 2017 was \$12.5 million as compared to \$4.6 million during the six months ended June 30, 2016.

The primary factors affecting the magnitude and variations of the Company's losses are as follows:

- In the six months ended June 30, 2017 the Company incurred \$6.2 million in selling, general and administrative expenses. The Company also incurred costs of goods sold of \$3.2 million on a consolidated basis consisting primarily of product manufacturing costs in FSD and contract physician compensation in NHS.
- In June 2017, the Company increased the fair value of its promissory notes and warrant liability by \$8.9 million resulting in an expense applied to the Condensed Interim Consolidated Statements of Comprehensive Loss for the period.

### **Discussion of Operations**

The Company incurred a net loss of \$12.5 million for the six months ended June 30, 2017. On a comparative basis, the net loss increased from the 6 months ending June 30, 2016 by \$7.9 million.

The key components contributing to the change in net loss from the six months ending June 30, 2017 compared to the six months ending June 30, 2016 was comprised of the following:

- Expense due to the revaluation of convertible promissory notes and warrants of \$8.9 million that occurred in the six months ending June 30, 2017.
- Costs of goods sold increased from \$nil to \$3.2 million resulting from the revenue generating activities of NHS and FSD.
- An increase in costs related to selling, general and administration expenses from \$1.9 million to \$6.2 million due to the acquisition of two operating companies and the Company's overall growth. During the period ending June 30, 2016, the Company expended one-time costs of \$689,000 and \$1.9 million resulting from research and development and the costs associated with a terminated acquisition respectively.
- Expenses arising from the amortization of NHS software in the amount of \$1.5 million.

### **Liquidity**

As at June 30, 2017 the Company had \$15.5 million in current assets (December 31, 2016 current assets - \$9.8 million) and had a working capital deficit of \$10.1 million (December 31, 2016 working capital deficit - \$1.6 million).

The Company raised \$18,750 through the issuance of Common Shares to the members of NHS under a share purchase agreement, raised \$4.5 million through the issuance of Common Shares in the 2016 Private Placement, converted \$333,000 in shareholder loans to Common Shares, settled \$84,000 in share subscriptions outstanding and incurred share issuance costs of \$637,000 during the six months ending June 30, 2017. At the end of the period, the Company's net share capital was \$47.0 million.

The Company also completed preliminary closing on the issuance of \$5.9 million Special Warrants in a brokered private placement at \$6.75 per Special Warrant. The Special Warrants convert to Common Shares of the Company on a one-to-one (1-1) basis on the earlier of the Company clearing its prospectus with a Canadian regulator or 120 days following the closing. In the event the prospectus is not cleared, the conversion rate increases to one-to-one and one tenth (1-1.1) in Common Shares of the Company. The Special Warrants were issued on June 27, 2017 and the conversion will occur on or before October 28, 2017. The Company used proceeds from this Offering to acquire 14 acres of land at Ramon Road under its CPL land purchase option agreement for \$5.8 million.

Subsequently, the Company settled its obligation on the NHS Note thereby reducing its cash and secured promissory notes by \$2.25 million each.

The Company is dependent on raising additional equity capital to carry on its business operations for the next 12 months. It has \$4.3 million in cash on hand as at June 30, 2017. There is no guarantee that the Company will be able to raise the additional equity capital required to fund its ongoing operations.

The Company has fixed payment contracts with management, personnel, landlords and other parties and accordingly requires working capital to meet its ongoing needs. A summary of the fixed payment contracts as at June 30, 2017 is as follows:

<i>(000s)</i>	Annual obligation as at June 30	
	2017	2016
Office and facility leases	\$1,125	\$-
Management contracts	1,866	-

Management contracts also include bonuses payable at the discretion of the Board of Directors and participation in the Stock Option Plan which was approved by the shareholders on July 27, 2017.

### Capital Resources

As at June 30, 2017, the Company had the following consolidated lease commitments:

<i>(\$000s)</i>	
2017	\$ 567
2018	1,116
2019	1,382
2020	1,326
Thereafter	3,825
	<u>\$ 8,216</u>

The lease commitments include properties in Goleta and Cathedral City, California; medical clinics, office space and education centres for NHS in Alberta, Saskatchewan, Manitoba and Ontario; and a commitment for the Company's Calgary-based corporate offices.

### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

### Legal Proceedings

The Company is not aware of any legal proceedings or claims where there is at least a reasonable possibility that a material loss may be incurred.

### Transactions between Related Parties

The Company's related parties, as defined by IAS 24, Related Party Disclosures, include the Company's controlling shareholders, directors, executive officers, key management personnel, and enterprises which are controlled by these individuals.

The Company considered the executive officers and directors as the key management of the Company.

Total compensation of key Company personnel for the three and six months ended June 30, 2017 is as follows:

<i>(\$000s)</i>	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Consulting fees and wages	\$449	\$232	\$788	\$629

On May 1, 2017, the Company hired a President USA to run its operations in the United States. The President was subsequently released from his duties on July 27, 2017. In addition to wages payable, the President USA received US\$57,000 in severance pay.

On May 14, 2017, the Company's Chief Financial Officer stepped down and was replaced by the Company's current Chief Financial Officer. There was no severance payable related to the transition and the former CFO retains 100,000 stock options for Common Shares of the Company.

During the periods, no director's fees were paid and there was no share-based compensation.

Amounts due to related parties is as follows as at June 30, 2017:

	June 30, 2017	December 31, 2016
Consulting fees and wages	-	\$27,000
Loans from shareholders	-	\$336,000

Except as listed below, no related party had any material interest, direct or indirect, in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries:

The Company entered into the Goleta Facility Lease. Dr. Anthony Holler, the Company's Chairman and CEO, has guaranteed the Goleta Facility Lease on behalf of the Company with an estimated liability as at June 30, 2017 of \$1.8 million.

Daniel Vass, Director and President of NHS, holds a secured promissory note payable by the Company resulting from his sale of NHS shares to the Company on February 8, 2017. As at June 30, 2017, Mr. Vass' note payable was for \$451,000. The note was paid in full by the Company on August 8, 2017.

Michael Barker, Director as at July 27, 2017, has a material interest in the Barker Pacific Group. The Company has entered into the Barker MOU for the construction of an industrial/warehouse/office facility in Cathedral City, California. The total estimated cost to the Company for the facility is USD\$50 million. Mr. Barker's interest in the transaction is expected to be 10%.

Luke Stanton, Director as at July 27, 2017, acts as the Company's US counsel and as such has an interest in transactions considered or conducted by the Company.

### **Proposed Transactions**

On April 19, 2017, the Company entered into the Barker MOU for the turn-key construction and outfitting of its CPL Greenhouse Facility which includes the sale and lease back of the land and certain equipment, planning and design costs incurred prior to securing CUP. The assets in question are held for sale on the Company's Condensed Interim Consolidated Statement of Financial Position (unaudited). Under the agreement, the Company expects to recover the land purchase price of approximately \$6.8 million plus an additional \$900,000 in soft costs and equipment costs for a total recovery of \$7.7 million. In addition, expenditures incurred by the Company subsequent to June 30, 2017 and prior to receiving a conditional use permit is expected to be recovered. Once the construction is materially complete and an occupancy permit is issued, the Company plans to lease the facility for approximately USD\$8.1 million per year initially on a 15-year term with three five-year extensions.

### **Critical Accounting Estimates**

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the Interim Financial Statements relate to the fair value measurements for inventory, estimated useful lives and depreciation of property, plant and equipment, valuation of intangibles, and valuation convertible instruments.

## **Changes in Accounting Policies Including Initial Adoption**

No accounting policies were initially adopted during the three and six months ended June 30, 2017.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the period ended June 30, 2017, and have not been applied in preparing the financial statements.

- IFRS 9 – Financial Instruments: IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and will be applied retrospectively.
- IFRS 15 – Revenue from contracts with customers: IFRS 15 is effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 – Leases: IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

## **Outstanding Share Data**

The Company's authorized share capital consists of an unlimited number of Common Shares without par value.

At the date of this MD&A, the Company had 25,528,663 (December 31, 2016 - 18,272,959) Common Shares issued and outstanding. In addition, the Company had 3,120,000 (December 31, 2016 – nil) stock options outstanding, 946,614 (December 31, 2016 – 828,239) warrants outstanding, 983,753 (December 31, 2016 – nil) Special Warrants outstanding, 11,112 (December 31, 2016 – nil) Corporate Finance Fee Special Warrants outstanding and 59,596 (December 31, 2016 – nil) Broker Special Warrants outstanding.

During the period, the Board of Directors approved a stock option plan for key employees, consultants and directors to present to the shareholders at the Company's annual general meeting. The Board authorized 3,784,600 options for the purchase of Common Shares. Subsequently, the option plan was presented to a meeting of the shareholders of the Company on July 27, 2017 and the option plan was approved by the shareholders.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decision-making regarding required disclosures. The Company's CEO and CFO have concluded that information required to be disclosed in the Company's consolidated financial statements and MD&A have been disclosed and fairly presented in the filings and that processes are in place to provide them with sufficient knowledge to support such representation. However, a control system, no matter how well conceived, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **Management's Responsibility for Financial Statements**

Management is responsible for the preparation and integrity of the financial statements, including the maintenance of appropriate information systems, procedures and internal controls. Management also ensures that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable.

The Company's board of directors follow recommended corporate guidelines for public companies to ensure transparency and accountability to shareholders. The board of directors meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The Company's management is responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a private company to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency

and timeliness of interim and annual filings and other reports provided under securities legislation as applicable to a private company. It is the Company's intent to become a venture issuer and these limitations will apply as a venture issuer as well.

In contrast to the certificate required for non-venture issuers under NI 52-109, the Company files the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of DC&P and ICFR. The certifying officers are not making any representations relating to the establishment and maintenance of:

1. Controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislations; and
2. A process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

### **Conflicts of Interest**

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the CBCA dealing with conflicts of interest. The Canadian corporate statutes specifically require each director (and officer) to disclose in writing (or request to have entered in the minutes of the board meeting) the nature and extent of the director's interest in a material contract or transaction or in a proposed one with the Company. The statutes further require the director to refrain from voting on a resolution to approve the contract or transaction except in narrow circumstances as defined in the act. In all circumstances, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

### **Additional Information**

Additional information related to the Company will be available for view on the Company's website at [www.sunniva.com](http://www.sunniva.com).

## GLOSSARY OF TERMS

“**2016 Private Placement**” means the non-brokered private placement pursuant to which the Company issued Common Shares totalling \$19.9 million.

“**196**” means 1964433 Alberta Ltd.

“**ACMPR**” means the *Access to Cannabis for Medical Purposes Regulations (Canada)* issued pursuant to the *Controlled Drugs and Substances Act (Canada)*.

“**Additional Shares**” means, collectively, the additional 0.1 of a Qualified Share and 0.1 of a Corporate Finance Fee Share to be issued upon the exercise or deemed exercise of each Special Warrant and Corporate Finance Fee Special Warrant, respectively, after the Penalty Deadline has passed.

“**Agency Agreement**” means the agency agreement dated June 27, 2017 among the Company, Canaccord Genuity Corp. and Beacon Securities Limited.

“**Agents**” means the Lead Agent and Beacon Securities Limited, collectively.

“**Agents’ Fee**” means a cash fee of 7% of the gross proceeds from the Offering, excluding proceeds received from certain “President’s List” subscribers, and 2.5% of the gross proceeds from the “President’s List” subscribers.

“**APL**” means A1 Perez, LLC.

“**ARC**” means the Architectural Review Committee.

“**Articles**” means the Company’s articles of incorporation, as amended on August 14, 2017.

“**Audit Committee**” means the Audit Committee established by the Board of Directors of the Company.

“**Barker MOU**” means the memorandum of understanding entered into by the Company and CPL with Barker Pacific Group.

“**Barker Pacific Group**” means Barker Pacific Group, Inc.

“**Board of Directors**” or “**Board**” means the board of directors of the Company.

“**Broker Special Warrants**” means broker special warrants upon whose voluntary or deemed exercise, Broker Warrants are issuable.

“**Broker Warrants**” means broker warrants of the Company issuable without payment of any additional consideration upon voluntary exercise prior to, or deemed exercise on, the Deemed Exercise Date of broker special warrants.

“**Broker Warrant Certificates**” means the broker warrant certificates issued by the Company pursuant to which the Broker Warrants will be issued.

“**Bureau**” means the California Bureau of Cannabis Control.

“**C3J**” means C3J Therapeutics, Inc.

“**cannabis**” has the meaning given to such term in the ACMPR.

“**cannabis oil**” has the meaning given to such term in the ACMPR.

“**CBCA**” means the *Canada Business Corporations Act*.

“**CBD**” means cannabidiol.



“**CC**” means the Compensation Committee established by the Board of Directors of the Company.

“**CCAA**” means the *Companies’ Creditors Arrangement Act* (Canada).

“**CCGC**” means California CC Growers Cooperative.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**CDSA**” means the *Controlled Drugs and Substances Act* (Canada).

“**CEO**” means chief executive officer.

“**CFO**” means chief financial officer.

“**cGMP**” means good manufacturing practices.

“**CGNC**” means the Corporate Governance and Nominating Committee established by the Board of Directors.

“**Charter**” means the *Canadian Charter of Rights and Freedoms*.

“**Code**” means the Company’s Code of Business Conduct and Ethics.

“**Committees**” means the Audit Committee, the CGNC and the CC, collectively.

“**Common Shares**” means common shares without par value in the capital of the Company.

“**Company**” means Sunniva Inc. and, unless otherwise noted or the context indicates otherwise, its direct and indirect subsidiaries.

“**Consolidated Financial Statements**” means the audited consolidated financial statements of the Company as at December 31, 2016 and December 31, 2015 and for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014.

“**Conversion Price**” means USD\$2.55.

“**COO**” means chief operating officer.

“**Corporate Finance Fee Shares**” means Common Shares issuable without payment of any additional consideration upon the exercise of Corporate Finance Fee Special Warrants.

“**Corporate Finance Fee Special Warrants**” means corporate finance fee special warrants issued pursuant to the terms of the Special Warrant Certificates and the Agency Agreement.

“**CPL**” means CP Logistics, LLC.

“**CPL Conversion Amount**” means the unpaid principal balance of the CPL Notes plus accrued and unpaid interest.

“**CPL Greenhouse Facility**” means CPL’s cultivation facilities.

“**CPL Notes**” means convertible promissory notes totalling USD\$7 million to convert at USD\$2.55 per Common Share upon the listing of the Common Shares on the TSX-V or another Canadian securities exchange.

“**CPL Units**” means the membership units in CPL.

“**CSE**” means the Canadian Stock Exchange.

“**CUP**” means a conditional use permit.

“**DC&P**” means disclosure controls and procedures as defined in NI 52-109.

“**DEA**” means the U.S. Drug Enforcement Agency.

“**Deemed Exercise Date**” means the date that is the earlier of: (i) the fifth business day after the date on which the Final Receipt has been issued; and (ii) October 28, 2017, at which time each Special Warrant and Corporate Finance Fee Special Warrant shall be automatically exercised into one Qualified Share or one Corporate Finance Fee Share, respectively, subject to adjustment in certain circumstances, without payment of any additional consideration and without any further action on the part of the holder.

“**DOJ**” means the U.S. Department of Justice.

“**dried marijuana**” has the meaning given to the term “dried marihuana” in the ACMPR.

“**EnviroVault**” means EnviroVault Corporation.

“**FDA**” means the *Food and Drug Act* (Canada).

“**Final Receipt**” means the date on which a receipt for the final prospectus of the Company qualifying the distribution of the Qualified Shares issuable on exercise of the Special Warrants has been issued.

“**FinCEN**” means the Financial Crimes Enforcement Network.

“**Frontera**” means Frontera Law Group.

“**FSD**” means Full Scale Distributors, LLC.

“**FSD Conversion Amount**” means the unpaid balance of the FSD Note plus accrued and unpaid interest.

“**FSD Note**” means the \$4.5 million secured convertible note comprising part of the Company’s consideration in the acquisition of 100% of the membership interests in FSD on February 10, 2017.

“**g**” means a gram.

“**Goleta Facility Lease**” means the lease entered into by the Company on December 16, 2015 of industrial premises at Goleta in the county of Santa Barbara, California, for the purposes of developing a device manufacturing and warehousing facility.

“**GSK**” means GlaxoSmithKline, Inc.

“**ICFR**” means internal control over financial reporting as defined in NI 52-109.

“**ID Biomedical**” means ID Biomedical Corporation.

“**IFRS**” means International Financial Reporting Standards.

“**Interim Financial Statements**” means the unaudited interim consolidated financial statements of the Company as at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016.

“**Inviro**” means Inviro Medical Inc.

“**IRS**” means the Internal Revenue Service.

“**IT**” means information technology.

“**KPMG**” means KPMG LLP.

“**Lead Agent**” means Canaccord Genuity Corp.

“**LP**” means licensed producer of cannabis.

“**marijuana**” has the meaning given to the term “marihuana” in the ACMPR.

“**MAUCRSA**” means the *Medicinal and Adult-Use Cannabis Regulation and Safety Act* (California).

“**McIntosh**” means the U.S. Ninth Circuit’s Holding in *United States v. McIntosh* (9<sup>th</sup> Cir. 2016).

“**MD&A**” means Management’s Discussion and Analysis included in this prospectus.

“**MMPR**” means the *Marihuana for Medical Purposes Regulations*.

“**Named Executive Officers**” or “**NEOs**” means the Company’s CEO and CFO and the next three next most highly compensated executive officers of the Company who are currently serving as executive officers, or the three most highly compensated individuals acting in a similar capacity.

“**NDA**” means a non-disclosure and confidentiality agreement entered into by each NEO with the Company.

“**NHS**” means Natural Health Services Ltd.

“**NI 52-109**” means National Instrument 52-109 *Certification of Disclosure in Issuer’s Annual and Interim Filings*.

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees*.

“**NP 46-201**” means National Policy 46-201 – *Escrow for Initial Public Offerings*.

“**NWP**” means NWP Industries, LP, together with its general partner, NWP Industries General Partner Ltd.

“**Offering**” means the private placement issuance of Special Warrants of the Company on June 27, 2017, on August 9, 2017 and on September 19, 2017, at a price of \$6.75 to purchasers in British Columbia, Alberta and Ontario pursuant to prospectus exemptions under applicable securities legislation.

“**Offering Price**” means the price per Special Warrant of \$6.75.

“**Osoyoos Indian Band**” means the Osoyoos Indian Band Development Corporation.

“**Osoyoos MOU**” means the Memorandum of Understanding dated January 10, 2017 between the Company and Osoyoos Indian Band.

“**Penalty Deadline**” means October 25, 2017.

“**Penalty Exercise Ratio**” means the ratio at which the Special Warrants and Corporate Finance Fee Special Warrants will be exercisable at if the Final Receipt is not issued by the securities regulators in the Qualifying Jurisdictions on or prior to the Penalty Deadline, specifically each Special Warrant and Corporate Finance Fee Special Warrant will be exercisable into 1.1 Qualified Shares or 1.1 Corporate Finance Fee Shares, respectively.

“**PIN**” means a personal identification number given to patients that allows them to access their scripts and medical documents on SPARK.

“**PIPEDA**” means the *Personal Information Protection and Electronics Documents Act* (Canada).

“**Qualified Shares**” means Common Shares issuable for no additional consideration upon the exercise or deemed exercise of the Special Warrants.

“**Qualifying Jurisdictions**” means the Provinces of British Columbia, Alberta, and Ontario in which the Special Warrants were purchased by subscribers pursuant to private placement exemptions from prospectus requirements.

“**Ramon Road**” means five acres of land in four parcels located at 69375 Ramon Road, Cathedral City, CA.

“**RBA**” means the Rohrabacher-Blumenauer Amendment, an omnibus appropriations bill enacted by Congress in December 2014.

“**RBC**” means the Royal Bank of Canada.

“**Receiver**” means Alvarez & Marsal Canada Inc.

“**Reorganization Plan**” means a plan of reorganization entered into pursuant to Chapter 11 of the United States Bankruptcy Code.

“**RFP**” means request for proposal.

“**SB94**” means Senate Bill No. 94.

“**SCH**” means Sun CA Holdings, Inc.

“**SFSD**” means Sunniva Full Scale Distributors Corporation.

“**SHM**” means Sun Holdings Management, LLC.

“**Skytree Capital Partners**” means Skytree Capital Partners, LLC.

“**SMI**” means Sunniva Medical Inc.

“**SPARK**” means NHS’ proprietary and secure software platform.

“**Special Warrant Certificates**” means special warrant certificates issued by the Company pursuant to whose terms the Special Warrants were issued.

“**Special Warrants**” means special warrants of the Company issued pursuant to the Offering.

“**SPL**” means Sunny People, LLC.

“**STC**” means Sunniva Technologies Corp.

“**Stock Option Plan**” means the Company’s stock option plan.

“**Sundance**” means Sundance Holdings Corporation.

“**Sunniva**” means Sunniva Inc. and, unless otherwise noted or the context indicates otherwise, its direct and indirect subsidiaries.

“**Tax Code**” means the Internal Revenue Code of 1986.

“**THC**” means tetrahydrocannabinol.

“**TSX**” means the Toronto Stock Exchange.

“**TSX-V**” means the TSX Venture Exchange.

“**U.S.**” means the United States of America.

“**U.S. Persons**” has the meaning given to the term in Regulation S under the U.S. Securities Act.

“**U.S. Private Placement**” means the ongoing non-broker private placement of Common Shares to U.S. residents.

“**U.S. Securities Act**” means United States Securities Act of 1933, as amended.

“**U.S. Subsidiary**” means Inviro Medical Devices, Inc.

“**UFV**” means the University of the Fraser Valley.

“**Unwound Transaction**” means the transaction entered into on January 7, 2016 whereby the Company acquired 100% of the assets of two entities for aggregate consideration of \$12.3 million in the form of \$1.3 million paid on behalf of the Company by a shareholder in 2015; \$170,000 paid on behalf of the Company by two directors in 2015; \$384,000 paid on behalf of the Company by a shareholder in 2016; \$550,000 paid by the Company in 2016; and \$9.8 million paid by the issuance of 7,870,000 Common Shares.

“**Walton CCAA Entities**” means WCI, WIGI and other Walton Group entities, collectively.

“**WCMI**” means Walton Capital Management Inc.

“**WIGI**” means Walton International Group Inc.

## INDEX TO THE FINANCIAL STATEMENTS

The following financial statements are included in this prospectus:

Audited consolidated financial statements of the Company as at December 31, 2016 and December 31, 2015 and for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014 (referred to as “**Consolidated Financial Statements**” in the prospectus); and F-1

Unaudited interim consolidated financial statements of the Company as at June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 (referred to as “**Interim Financial Statements**” in the prospectus). F-36



**SUNNIVA HOLDINGS CORP.**

Consolidated Financial Statements

(Expressed in thousands of Canadian dollars)

For the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Sunniva Holdings Corp.

We have audited the accompanying consolidated financial statements of Sunniva Holdings Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years ended December 31, 2016 and December 31, 2015, and for the period from the date of incorporation on August 11, 2014 to December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.



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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Sunniva Holdings Corp. as at December 31, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2(a) of the consolidated financial statements which indicates that Sunniva Holdings Corp. has sustained a loss in the year ended December 31, 2016 and in recent years and Sunniva Holdings Corp.'s ability to generate future profitable operations is uncertain. These conditions, along with other matters as set forth in Note 2(a) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt on Sunniva Holdings Corp.'s ability to continue as a going concern.

Chartered Professional Accountants

June 19, 2017  
Vancouver, Canada

**SUNNIVA HOLDINGS CORP.**  
Consolidated Statements of Financial Position  
As at December 31

<i>In thousands of Canadian dollars</i>	<b>Notes:</b>	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 9,613	\$ 41
Amounts receivable		33	61
Loan receivable	5	100	-
Prepaid expenses and deposits		47	1,165
<b>Total current assets</b>		<b>9,793</b>	<b>1,267</b>
<b>Non-current assets</b>			
Deposits on leases and properties		273	51
Property, plant and equipment	6	2,031	-
Intangible assets	7	13,566	-
<b>Total non-current assets</b>		<b>15,870</b>	<b>51</b>
<b>Total assets</b>		<b>\$ 25,663</b>	<b>\$ 1,318</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (Deficiency)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 783	\$ 519
Secured convertible promissory notes	8	9,333	-
Warrant liability	9	764	-
Provisions	10	202	-
Loans from shareholders		336	1,554
<b>Total current and total liabilities</b>		<b>11,418</b>	<b>2,073</b>
<b>Shareholders' equity (deficiency)</b>			
Share capital	11	23,815	2,294
Share subscriptions		84	100
Accumulated other comprehensive loss		(33)	-
Contributed surplus		415	-
Deficit		(10,036)	(3,149)
<b>Total shareholders' equity (deficiency)</b>		<b>14,245</b>	<b>(755)</b>
<b>Total liabilities and equity</b>		<b>\$ 25,663</b>	<b>\$ 1,318</b>

Going concern (Note 2a)  
Commitments and contingencies (Note 19)  
Subsequent events (Note 20)

Approved on behalf of the Board of Directors:

/s/ Anthony Holler  
Dr. Anthony Holler, Director

/s/ Leith Pedersen  
Leith Pedersen, Director

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

**SUNNIVA HOLDINGS CORP.**

## Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014

*In thousands of Canadian dollars, except as otherwise noted*

	Note	Year ended December 31, 2016	Year ended December 31, 2015	For the period from date of incorporation on August 11, 2014 to December 31, 2014
<b>REVENUE</b>		\$ 38	\$ -	\$ -
<b>COST OF GOODS SOLD</b>		12	-	-
		26	-	-
<b>EXPENSES</b>				
Corporate	14	3,596	1,340	767
Research and development		314	513	468
Costs associated with terminated acquisition	11(b)iii	2,149	-	-
		6,059	1,853	1,235
<b>Loss before other expenses and income taxes</b>		6,033	1,853	1,235
Other expenses				
Finance expense	15	854	60	1
<b>Loss before income taxes</b>		6,887	1,913	1,236
Income taxes		-	-	-
<b>Net loss</b>		6,887	1,913	1,236
Other comprehensive loss: Items that may be subsequently reclassified to earnings				
Unrealized foreign exchange loss on translation of foreign operation		33	-	-
<b>Total comprehensive loss for the year</b>		\$ 6,920	\$ 1,913	\$ 1,236
<b>Loss per share</b>	11(d)			
Weighted average number of shares outstanding				
Basic and diluted		16,782,306	10,915,667	9,712,634
Basic and diluted loss per share (dollars)		\$ 0.41	\$ 0.18	\$ 0.13

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

**SUNNIVA HOLDINGS CORP.**

Consolidated Statement of Changes of Equity (Deficiency)

For the years ended December 31, 2016 and December 31, 2015 and for the period from date of incorporation on August 11, 2014 to December 31, 2014

<i>In thousands of Canadian dollars, except as otherwise noted</i>	Note	Number of shares	Share capital	Share subscriptions	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Issued at incorporation	11(b)(i)	9,125,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Common shares issued in private placements	11(b)(i)	907,000	1,134	-	-	-	-	1,134
Share subscriptions received	11(b)(i)	-	-	465	-	-	-	465
Share issuance costs		-	(18)	-	-	-	-	(18)
Loss for the period		-	-	-	-	-	(1,236)	(1,236)
Balance at December 31, 2014		10,032,000	1,116	465	-	-	(1,236)	345
Common shares issued in private placements	11(b)(ii)	817,600	1,021	-	-	-	-	1,021
Share subscriptions settled	11(b)(i)	292,000	365	(365)	-	-	-	-
Common shares repurchased	11(b)(ii)	(160,000)	(200)	-	-	-	-	(200)
Share issuance costs		-	(8)	-	-	-	-	(8)
Loss for the year		-	-	-	-	-	(1,913)	(1,913)
Balance at December 31, 2015		10,981,600	2,294	100	-	-	(3,149)	(755)
Common shares issued in private placements	11(b)(iii)	5,845,426	19,983	-	-	-	-	19,983
Common shares issued for acquisition	11(b)(iii)	7,870,000	9,838	-	-	-	-	9,838
Common shares issued to settle shareholder loans and debt	11(b)(iii)	1,365,933	2,987	-	87	-	-	3,074
Share subscriptions settled	11(b)(iii)	80,000	100	(100)	-	-	-	-
Share subscriptions received		-	-	84	-	-	-	84
Common shares repurchased	11(b)(iii)	(7,870,000)	(9,838)	-	-	-	-	(9,838)
Share issuance costs		-	(1,221)	-	-	-	-	(1,221)
Finders' warrants issued in share offerings	11(c)	-	(328)	-	328	-	-	-
Loss for the year		-	-	-	-	-	(6,887)	(6,887)
Foreign currency reserve		-	-	-	-	(33)	-	(33)
Balance at December 31, 2016		18,272,959	\$ 23,815	\$ 84	\$ 415	(\$ 33)	(\$ 10,036)	\$ 14,245

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

**SUNNIVA HOLDINGS CORP.**

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and December 31, 2015 and for the period from the date of incorporation on August 11, 2014 to December 31, 2014

In thousands of Canadian dollars

	Note	Year ended December 31, 2016	Year ended December 31, 2015	For the period from date of incorporation on August 11, 2014 to December 31, 2014
<b>Cash provided by (used in) operating activities</b>				
Loss for the period		\$ (6,887)	\$ (1,913)	\$ (1,236)
Adjustments for:				
Accretion	15	831	-	-
Provision for onerous lease	10	202	-	-
Unrealized foreign exchange loss	15	49	59	-
Fair value adjustment of warrant liability	15	(75)	-	-
Finance expense		35	-	-
Operating activities before changes in operating assets and liabilities		(5,845)	(1,854)	(1,236)
Change in amounts receivable		28	(18)	(43)
Change in loan receivable		(100)	-	-
Change in prepaid expenses		1,118	(1,140)	(25)
Change in accounts payable and accrued liabilities		264	38	481
Net cash used in operating activities		(4,535)	(2,974)	(823)
<b>Cash provided by (used in) financing activities</b>				
Loans from shareholders		2,088	1,495	-
Repayment of loans from shareholders		(377)	-	-
Proceeds from loans		30	-	-
Net proceeds from issuance of share capital	11	18,762	1,013	1,116
Common shares repurchased		-	(200)	-
Share subscriptions received		84	-	465
Net cash provided by financing activities		20,587	2,308	1,581
<b>Cash used in investing activities</b>				
Deposits on properties and leases		(222)	(51)	-
Purchase of property, plant, and equipment		(2,031)	-	-
Cash paid for Intangibles acquired	7	(4,266)	-	-
Net cash used in investing activities		(6,519)	(51)	-
<b>Effect of foreign exchange on cash and cash equivalents</b>				
		39	-	-
<b>Increase (decrease) in cash</b>				
Cash and cash equivalents, beginning of period		41	758	-
<b>Cash and cash equivalents, end of period</b>		<b>\$ 9,613</b>	<b>\$ 41</b>	<b>\$ 758</b>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>				
Shareholder loans settled through issuance of common shares		\$ 2,987	-	-
Promissory note issued with acquisition of intangibles		9,333	-	-

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

## **1. REPORTING ENTITY**

Sunniva Holdings Corp. (the “Company”) is a company incorporated and headquartered in Canada. The Company was incorporated on August 11, 2014 under the Canadian Business Corporations Act. The principal activity of the Company is within the medical cannabis sector. It identifies, acquires and develops opportunities in support of cannabis cultivation, extraction, manufacturing, distribution and ancillary services. The Company operates in Canada and the United States.

Sunniva 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 United States despite being legalized for medical use in Canada and in individual states where the Company operates. The enforcement of these laws and its effect on Sunniva and its business, employees, directors and shareholders is uncertain and accordingly involve considerable risk.

The address of the Company’s registered office is 1200-200 Burrard Street, Vancouver, British Columbia, Canada.

## **2. BASIS OF PRESENTATION**

### **A) GOING CONCERN**

The Company is considered to be in the development stage and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its products offerings in the medical cannabis industry and enter into a revenue producing stage.

These consolidated 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 December 31, 2016 has not generated significant revenue from operations. The Company has an accumulated deficit of \$10,036 as at December 31, 2016 (2015 - \$3,149) and incurred a net loss of \$6,887 for the year ended December 31, 2016 (\$1,913 for the year ended December 31, 2015 and \$1,236 for the period from the date of incorporation on August 11, 2014 to December 31, 2014).

The Company’s ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity and debt, will be sought to finance the operations of the Company; however, there can be no certainty that such funds will be available at 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. These consolidated 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.

Subsequent to December 31, 2016, the Company closed private placements for total gross proceeds of \$4,515. See Note 20 (c).

## **2. BASIS OF PRESENTATION (Continued)**

### **B) STATEMENT OF COMPLIANCE**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issuance by the Board of Directors on June 1, 2017.

### **C) BASIS OF MEASUREMENT**

The Company's consolidated financial statements have been prepared on a going concern and historical cost basis, except for certain financial instruments which are measured at fair value.

### **D) FUNCTIONAL AND PRESENTATION CURRENCY**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's US subsidiaries is the US dollar.

### **E) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS**

The preparation of the Company's consolidated 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 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.

## 2. BASIS OF PRESENTATION (Continued)

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

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) Warrant Liability

The Company uses the Black-Scholes mathematical 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. Change 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.

(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 consolidated financial statements include:

- the determination of functional currency;
- the determination of the fair value of the convertible promissory notes;
- the determination of the fair value of warrant liabilities. Fair value is determined using valuation techniques. The Company uses judgment to select the method used to make certain assumptions and in performing the fair value calculations in order to determine (a) at the time of their issuance; and (b) the subsequent fair value measurement at each reporting date on a recurring basis;
- the determination of the Company's ability to continue as a going concern. Certain judgments are made when determining if the Company will achieve profitable operations. Refer to Note 2(a).



### 3. SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies have been applied consistently by the subsidiaries of the Company.

#### A) BASIS OF CONSOLIDATION:

These consolidated 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 these consolidated financial statements:

Subsidiary	Jurisdiction of Incorporation
Sunniva Medical Inc.	Canada
Sunniva Technologies Corp.	Canada
Sun Holdings Management, LLC	Delaware, USA
CP Logistics, LLC	North Carolina, USA

#### B) FOREIGN CURRENCY:

Transactions in foreign currencies are translated to the respective functional currencies of the subsidiaries of the Company at exchange rates at the dates of the transactions. Period end balances of monetary assets and liabilities denominated in a foreign currency are translated to the respective functional currencies using period end foreign currency rates. Foreign currency gains and losses arising from settlement of foreign currency transactions are recognized in earnings. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date on which the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

#### **C) TERMINATION BENEFITS:**

Termination benefits are expensed when the Company has demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate an employment arrangement before the normal retirement date.

#### **D) SHARE CAPITAL:**

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares, common share purchase warrants, and share options are recognized as a deduction from equity, net of any tax effects.

#### **E) EARNINGS/LOSS PER SHARE:**

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The dilutive effect is calculated presuming the exercise of outstanding warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average price during the year. However, the calculation of diluted loss per share excludes the effect of various conversions and exercise of warrants that would be anti-dilutive.

#### **F) RESEARCH AND PROJECT DEVELOPMENT COSTS**

Research costs are expensed as incurred. Development costs are capitalized and recorded as an intangible asset only if technical feasibility has been established and the Company expects to generate probable future economic benefits from the asset created on completion of development and the Company holds the necessary regulatory licenses to operate the project. The costs capitalized include engineering and community planning studies and activities, materials, direct labour, directly attributable overhead expenditures, and borrowing costs on qualifying assets. Other development costs are expensed in the period incurred.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### G) FINANCIAL INSTRUMENTS

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, loans and receivables, and available-for-sale. 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:

Financial assets are classified as at fair value through earnings when held for trading or if designated into this category. Financial assets classified as financial assets at fair value through earnings are measured at fair value with any gains or losses arising on re-measurement recognized in earnings. The Company does not have any financial assets classified as fair value through earnings.

- Loans and receivables:

Loans and receivables include cash and cash equivalents, and other receivables. Loans and receivables are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest method, less any impairment losses.

- Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified into any of the other categories. Available-for-sale financial assets are measured at fair value with any gains or losses on re-measurement recognized in other comprehensive income until the financial asset is derecognized or is determined to be permanently impaired, at which time the gain or loss accumulated in equity is transferred to earnings. The Company does not have any financial assets classified as available-for-sale assets.

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

#### **G) FINANCIAL INSTRUMENTS (Continued)**

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all of 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, as other financial liabilities. The Company's derivative financial liabilities including the warrant liability are stated at fair value with changes recognized through earnings.

(iii) Embedded derivatives:

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at their fair value through earnings. Embedded derivatives are recorded at fair value through earnings.

#### **H) CASH AND CASH EQUIVALENTS**

Cash and cash equivalents is comprised of cash on hand, cash balances with banks and similar institutions, and term deposits redeemable within three months or less from the date of acquisition with banks and similar institutions.

#### **I) PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into working condition for its intended use. Assets acquired in a business combination are measured at the fair value of the assets at the time of acquisition. Repairs and maintenance costs are charged directly to the statement of loss as incurred.

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

#### **J) INTANGIBLE ASSETS**

Intangible assets consist of acquired licenses for the production, processing, and sale of medicinal cannabis. They are measured at cost less accumulated amortization and accumulated impairment losses. Cost for intangible assets acquired in a business combination represents the fair value of the asset at the time of the acquisition. Intangible assets with finite lives are amortized over 10 years.

#### **K) IMPAIRMENT**

(i) Financial assets:

Financial assets not carried at fair value through earnings are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event which negatively affected the estimated future cash flows has occurred after the initial recognition of the asset. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If an impairment has occurred, the carrying amount of the asset is reduced to its recoverable amount, with the amount of the loss recognized in earnings. A permanent impairment loss for an available-for-sale investment is recognized by transferring the cumulative loss previously recognized in other comprehensive income to earnings.

(ii) Non-financial assets:

Non-financial assets are tested for impairment annually, or whenever events or changes in circumstances indicate that an asset's carrying amount may be less than its recoverable amount. Management uses judgment to estimate the inputs to these assessments and any changes to these inputs could have a material impact on the impairment calculation. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into a cash-generating unit ("CGU"), which represent the level at which largely independent cash flows are generated.

An impairment loss is recognized in earnings to the extent that the carrying value of an asset, CGU or group of CGUs exceeds its estimated recoverable amount. The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less cost to sell. Value in use is calculated as the present value of the estimated future cash flows discounted at appropriate discount rates. An impairment loss relating to a specific asset reduces the carrying value of the asset. An impairment loss relating to a CGU or group of CGUs reduces the carrying value of the goodwill allocated to the CGU or group of CGUs, then reduces the carrying value of the other assets of the CGU or group of CGUs on a pro-rata basis. A previously recognized impairment loss related to other nonfinancial assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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

#### **K) IMPAIRMENT (Continued)**

An impairment loss related to other non-financial assets is reversed if there is a subsequent increase in recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

#### **L) PROVISIONS**

Provisions are recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting expected future cash outflows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Management uses judgment to estimate the amount, timing and probability of the liability based on facts known at the reporting date. The unwinding of the discount is recognized as a finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract and taking into consideration any reasonably obtainable sub-leases. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

#### **M) LEASES**

Leasing contracts are classified as either finance or operating leases based on the substance of the contractual arrangement at inception date. A lease is classified as a finance lease if it transfers substantially all of the risks and rewards of ownership of the leased asset. Where the contracts are classified as finance leases, upon initial recognition, the asset and liability are recorded at the lower of fair value and the present value of the minimum lease payments, net of executory costs. Finance lease payments are apportioned between interest expense and repayments of the liability. Where the contracts are classified as operating leases, they are not recognized in the Company's Consolidated Statements of Financial Position and lease payments are charged to earnings as they are incurred on a straight-line basis over the lease term.

#### **N) INCOME TAXES**

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized into earnings except to the extent that it relates to a business combination or items recognized directly in other comprehensive income or share capital.

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

#### **N) INCOME TAXES (Continued)**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable earnings, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

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

Deferred tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

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

In July 2014, the IASB issued IFRS 9 - *Financial Instruments*, which replaces the earlier versions of IFRS 9 (2009, 2010, and 2013) and completes the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward-looking 'expected credit loss' impairment model and a substantially-reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively, with some exceptions. Earlier adoption is permitted. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements, and plans to adopt the new standard on the required effective date.

#### **4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (Continued)**

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

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers*, which supersedes IAS 18 – Revenue, IAS 11 – Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company plans to adopt IFRS 15 on the required effective date and does not believe that this will have a material impact on its consolidated financial statements.

(c) 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.

#### **5. LOAN RECEIVABLE**

On August 22, 2016, the Company loaned \$100 to a company that it was considering acquiring. The Company subsequently terminated acquisition discussions with the company. This loan is unsecured and earns interest at a rate of 7% per annum. The loan and interest were collected on May 9, 2017.



## 6. PROPERTY, PLANT AND EQUIPMENT

In December 2016, the Company acquired industrial land in Cathedral City, California, for a proposed greenhouse facility and incurred project development costs related to that site. During 2016, the Company also acquired production equipment which is being held in the Company's Goleta facility pending transfer to the Company's Cathedral City project.

	Land	Construction in progress	Equipment	Total
Balance, January 1, 2016	\$ -	\$ -	\$ -	\$ -
Additions	1,784	198	49	2,031
Balance, December 31, 2016	<u>\$ 1,784</u>	<u>\$ 198</u>	<u>\$ 49</u>	<u>\$ 2,031</u>

The Equipment is not yet available for use and thus the Company has not yet recorded any depreciation.

## 7. INTANGIBLE ASSETS

On November 17, 2016, the Company entered into a purchase agreement with the members of CP Logistics, LLC ("CPL") pursuant to which the Company acquired all of the outstanding membership interests of CPL. The acquisition closed on December 15, 2016. The purchase price was \$13,553 (US\$10,135,000) consisting of \$4,220 of cash consideration (US\$3,135,000) and \$9,333 (US\$7,000,000) in secured convertible promissory notes. (Note 8). CPL's assets included 5 licenses, which have been accounted for by the Company as an asset acquisition. The value of the licenses are inseparable as these assets are inter-related. Directly attributable legal fees of \$46 were also included in the cost of the asset.

	Intangible Assets
Balance, January 1, 2016	\$ -
Additions	13,599
Foreign exchange adjustment	(33)
Balance, December 31, 2016	<u>\$ 13,566</u>

The Company has not recorded any amortization expense as these assets are in the project development phase. The Company performs impairment testing at least annually on December 31 and whenever there is an indication of impairment. No impairment was identified as a result of the Company's most recent annual impairment test.

## 7. INTANGIBLE ASSETS (Continued)

The key assumptions used in performing the impairment test:

<u>Valuation method</u>	<u>Pre-tax discount rate</u>	<u>Terminal Multiple</u>
Value in use	18%	5.5 x EBITDA

Recoverable amount (Terminal value method):

Management's future projections of its businesses' performance are used to make a best estimate of the projected revenues, earnings before interest, taxes, depreciation and amortization ("EBITDA") and operating cash flows covering a five year forecast period, with a terminal value extrapolated into the future over the estimated useful life of the assets.

Discount rate:

The discount rate applied is a pre-tax rate which reflects the time value of money and risk associated with the business. Management has determined its discount rate to reflect the risk of an emerging company.

Sensitivity analysis:

Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss.

## 8. SECURED CONVERTIBLE PROMISSORY NOTES

On December 15, 2016, the Company issued secured convertible promissory notes (the "Notes") in an aggregate principal amount of \$9,333 (US\$7,000,000). The Notes mature on December 31, 2017 and accrue interest at a rate of 0.5% per annum.

The Notes are convertible, in whole or in parts, into common shares of the Company at any time at the option of the holders at a conversion price of US\$2.55 (the "Conversion Price"), subject to adjustment in certain circumstances. The Notes automatically convert into common shares of the Company at such time that the common shares of the Company are listed on the TSX Venture Exchange and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US\$2.55 per common share.

The Notes are compound financial instruments. Although the issue and repayment amount are fixed in the foreign currency amounts, when converted back to the Company's functional currency it results in a variable amount of cash (that is, a variable carrying amount for the financial liability that arises from changes in exchange rates), and hence the conversion feature does not meet the 'fixed-for-fixed' criteria for equity classification.

## 8. SECURED CONVERTIBLE PROMISSORY NOTES (Continued)

The conversion feature is therefore a derivative liability, where the value of the conversion feature is dependent on foreign exchange rates. The Company has elected to use the fair value option method and valued the embedded derivative and instrument collectively at fair value.

On initial recognition, the Company issued \$9,333 in Notes (US\$7,000,000), converted to its functional currency at a rate of US Dollars to Canadian Dollars at 1.33. The Company determined that there was no material change in the foreign exchange rate between the date of issuance on December 15, 2016 and the year end at December 31, 2016. In future periods, the foreign exchange derivative host liability will be measured at fair value with changes recognized in profit or loss. The debt liability will be translated at the exchange rate at that reporting date. Any effects of changes in foreign exchange rates will be recognized in profit or loss.

	<u>Total</u>
Value at issuance	\$ 9,333
Fair value adjustment	-
Balance as at December 31, 2016	<u>\$ 9,333</u>

## 9. WARRANT LIABILITY

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:

<u>Issue Date</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
April 12, 2016	100,000	US \$2.55	April 12, 2019
May 1, 2016	100,000	US \$2.55	May 1, 2019
July 19, 2016	<u>300,000</u>	US \$2.55	July 19, 2019
	500,000		

The weighted average grant date fair value of the interim financing share purchase warrants was determined to be \$1.61 per warrant for a total of \$804. As at December 31, 2016, none of the interim financing share purchase warrants had been exercised.

## 9. WARRANT LIABILITY (Continued)

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

- risk free interest rate of 0.55%;
- expected life of 3 years;
- expected volatility of 75%; and
- expected dividends of \$Nil.

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

## 10. PROVISIONS

	<u>Onerous Lease</u>
Balance, January 1, 2016	\$ -
Provisions made during the year	<u>202</u>
Balance, December 31, 2016	<u>\$ 202</u>

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%.

## **11. SHARE CAPITAL**

### **(a) Authorized:**

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

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

#### **(i) 2014**

On incorporation the Company issued 9,125,000 common shares for nominal consideration. On September 30, 2014, the Company completed a private placement of 907,000 common shares at a price of \$1.25 per share for proceeds of \$1,134. In December 2014, the Company received subscription agreements for a private placement of 372,000 shares at a price of \$1.25 per share for proceeds of \$465. 292,000 common shares for these subscription agreements were issued on January 26, 2015 and the 80,000 balance was issued in January 2016.

#### **(ii) 2015**

On January 26, 2015, the Company completed a private placement of 765,600 common shares at a price of \$1.25 per share for proceeds of \$956. On April 14, 2015 the Company repurchased 160,000 common shares at a price of \$1.25 per share for a cost of \$200. On September 11, 2015, the Company issued 52,000 shares at a price of \$1.25 per share for proceeds of \$65.

#### **(iii) 2016**

On January 7, 2016 the Company acquired assets in a transaction with a vaporizer device manufacturer. Total consideration of \$12,266 consisted of:

- \$1,324 (US\$1,000,000) paid on behalf of the Company by a shareholder in 2015;
- \$170 (US\$125,000) paid on behalf of the Company by two directors in 2015;
- \$384 (US\$300,000) paid on behalf of the Company by a shareholder in 2016;
- \$550 (US\$400,000) paid by the Company in 2016; and
- \$9,838 paid by the issuance of 7,870,000 common shares in the Company with a value of \$1.25 per share.

In July 2016 this acquisition was unwound: the Company returned the assets acquired back to the vendors and the 7,870,000 common shares of the Company issued to the vendors were returned to treasury at a deemed price of \$1.25 per share and then cancelled. The vendors retained the cash payments and those costs were expensed. Legal costs of \$62 associated with the transactions were also expensed.

## SHARE CAPITAL (Continued)

### (b) Issued and Outstanding – Common Shares (Continued) (iii) 2016 (Continued)

Date		Number of Shares	Price	Total
January 7, 2016	Shares for acquisition	7,870,000	\$1.25	\$ 9,838
January 8, 2016	Share subscriptions settled with common shares	80,000	\$1.25	100
January 8, 2016	Issued in settlement of shareholder loan	780,000	\$1.25	975
January 2016	Private placement	462,824	\$3.40 (US\$2.55)	1,666
April 15, 2016	Private placement	51,725	\$3.40 (US\$2.55)	170
July 14, 2016	Private placement	15,500	\$3.40 (US\$2.55)	51
July 20, 2016	Acquisition cancelled	(7,870,000)	\$1.25	(9,838)
November 2016	Issued in settlement of shareholder loans	577,109	\$3.40 (US\$2.55)	1,982
November 2016	Issued in settlement of debt	8,824	\$3.40	30
November and December 2016	Private placements	5,315,377	\$3.40 (US\$2.55)	18,096
		7,291,359		\$ 23,070

### (c) Finders' Warrants

During 2016, 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	Number	Exercise Price	Expiry Date
December 20, 2016	38,941	\$3.40	December 20, 2017
December 28, 2016	289,298	\$3.40	December 28, 2017
	328,239		

The weighted average grant date fair value of the finders' warrants was determined to be \$1.00 per warrant for a total of \$328. As at December 31, 2016, none of the finders' warrants had been exercised. The fair value of these warrants was determined on the date of the grant using the Black-Scholes mathematical model with the following weighted average assumptions:

- risk free interest rate of 0.75%;
- expected life of 1 year;
- expected volatility of 75%; and
- expected dividends of \$Nil.

## 11. SHARE CAPITAL (Continued)

### (d) Loss per share:

The calculation of loss per share is as follows:

Year ended December 31, 2016			Year ended December 31, 2015			For the period from the date of incorporation on August 11, 2014 to December 31, 2014					
Weighted average number of common shares outstanding		Loss per share	Weighted average number of common shares outstanding		Loss per share	Weighted average number of common shares outstanding		Loss per share			
Loss	\$ 6,887	16,782,306	\$ 0.41	Loss	\$ 1,913	10,915,667	\$ 0.18	Loss	\$1,236	9,712,634	\$ 0.13

## 12. 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 and the convertible 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.

### 13. FINANCIAL INSTRUMENTS AND RISK EXPOSURES

The Company's financial assets include cash and cash equivalents, amounts receivable and loan receivable. The Company's financial liabilities include accounts payable and accrued liabilities, secured convertible promissory notes payable, and loans from shareholders. The carrying values of these financial instruments approximate their fair values based on the nature of these instruments as at December 31, 2016 and December 31, 2015.

Cash and cash equivalents, amounts receivable and loan receivable are classified as loans and receivables, measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities and the loans from shareholders are classified as other 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 are classified as fair value through profit and loss.

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

(a) Fair value measurements:

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

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

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

Secured convertible promissory notes	Level 3
Warrant Liability	Level 3

There were no transfers between the levels during the years ended December 31, 2016 nor December 31, 2015, nor for the period from the date of incorporation on August 11, 2014 to December 31, 2014.

As at December 31, 2016 and 2015, the fair values of all financial instruments carried at amortized cost approximated their carrying value.



### 13. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(b) Credit risk:

The Company may also have credit risk relating to cash and cash equivalents, which it manages by dealing with large banks and investing in highly liquid investments. The Company's objective is to minimize its exposure to credit risk in order to prevent losses on financial assets by placing its investments in highly liquid instruments such as guaranteed investment funds. All cash and cash equivalents are placed with major Canadian financial institutions.

(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 19, the Company has the following contractual obligations:

As at December 31, 2016	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	\$ 783	\$ 783	\$ -	\$ -
Secured convertible promissory notes	9,333	9,333	-	-
Loans from shareholders	336	336	-	-
	<u>\$ 10,452</u>	<u>\$ 10,452</u>	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2015	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	\$ 519	\$ 519	\$ -	\$ -
Loans from shareholders	1,554	1,554	-	-
	<u>\$ 2,073</u>	<u>\$ 2,073</u>	<u>\$ -</u>	<u>\$ -</u>

### 13. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

#### (d) Currency risk:

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk as a result of components of cost being denominated in currencies other than the Canadian dollar, primarily the United States dollar.

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

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

#### (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. The Company's exposure to the risk of changes in market interest rates relate primarily to the secured notes payable. The Company does not enter into any interest rate swaps to mitigate interest rate 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.

### 14. CORPORATE EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Accounting and legal	\$ 221	\$ 269	\$ 143
Advertising and promotions	167	32	27
Employee and contractor related	1,962	835	527
Insurance	13	11	2
Licensing fees	143	-	-
Office and miscellaneous	57	9	21
Travel	228	184	47
Rent and utilities	805	-	-
	<u>\$ 3,596</u>	<u>\$ 1,340</u>	<u>\$ 767</u>

## 15. FINANCE EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Accretion	\$ 831	\$ -	\$ -
Interest and bank charges	54	1	1
Change in fair value of warrant liability	(75)	-	-
Foreign exchange	44	59	-
	<u>\$ 854</u>	<u>\$ 60</u>	<u>\$ 1</u>

## 16. INCOME TAXES

### (a) Income tax expense

Income tax expense differs from the expected expense if the Canadian federal and provincial statutory income tax rates were applied to earnings from operations before income taxes. The principal factors causing these differences are shown below:

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Loss before income taxes	\$ (6,887)	\$ (1,913)	\$ (1,236)
Statutory tax rate	26%	26%	26%
Calculated tax benefit	<u>(1,791)</u>	<u>(497)</u>	<u>(321)</u>
Permanent differences	216	16	1
Share issuance costs	(589)	(1)	(1)
Change in unrecognized deferred tax assets	<u>2,164</u>	<u>482</u>	<u>321</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### (b) Recognized deferred tax assets and liabilities

The Company has not recognized deferred tax assets or liabilities as at December 31, 2016 and December 31, 2015.

## 16. INCOME TAXES (Continued)

### (c) Deferred income tax assets and liabilities

The Company did not recognize deferred tax assets for the following temporary differences:

	Year Ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Non-capital losses carried forward	\$ 2,438	\$ 804	\$ 322
Other temporary differences	527	4	4
Unrecognized deferred income tax assets	<u>\$ 2,965</u>	<u>\$ 808</u>	<u>\$ 326</u>

### (d) Loss carry forwards

The Company has tax losses carried forward of \$9,377 that can be used to offset taxable income in Canada. If not utilized, they will expire as follows:

2034	\$ 1,238
2035	\$ 1,856
2036	\$ 6,283

## 17. 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

Key management personnel compensation, including directors and officers, is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Consulting fees and wages	<u>\$ 747</u>	<u>\$ 240</u>	<u>\$ 346</u>

Amounts due to related parties is as follows as at December 31:

	December 31, 2016	December 31, 2015
Consulting fees and wages	<u>\$ 27</u>	<u>\$ 62</u>
Loans from shareholders	<u>\$ 336</u>	<u>\$ 1,554</u>

### (b) Other benefits:

	Year ended December 31, 2016	Year ended December 31, 2015	For the period from the date of incorporation on August 11, 2014 to December 31, 2014
Termination payments	<u>\$ 131</u>	<u>\$ 108</u>	<u>\$ -</u>

During 2015, the Company's initial President and the initial Chief Financial Officer's contractual agreements were terminated. In addition to the cash payments noted above the Company repurchased 160,000 shares from them at a cost of \$200. During 2016, the Company's COO resigned and received the termination payment noted above.

There were no other long-term benefits paid. The Company reimburses directors, management, and consultants for business and travel expenses incurred in conjunction with their services. The Company also maintains a directors' and officers' liability insurance policy.

### (c) Lease Guarantee:

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

## 17. RELATED PARTY TRANSACTIONS (Continued)

### (d) Loans from shareholders

Date	Lender	Amount	Settlement	Interest	Warrants (Note 9)
August - December 2015	Shareholder	\$1,370 (US \$1,000,000)	On January 8, 2016, issued 780,000 common shares and a \$354 (US\$250,000) shareholder loan. The \$336 (US\$250,000) balance of the loan was outstanding at December 31, 2016.	Nil	100,000
December 12, 2015	Director	\$102 (US \$75,000)	Settled for 29,412 shares on November 23, 2016	Nil	Nil
December 12, 2015	Director	\$67 (US \$50,000)	Settled for 19,608 shares on November 23, 2016	Nil	Nil
April 12, 2016	Shareholder	\$383 (US \$300,000)	Settled for 117,647 shares on November 23, 2016	\$ 12, settled with 3,624 shares on November 23, 2016	
May 1, 2016	Shareholder	\$376 (US \$300,000)	Repaid on December 20, 2016	\$ 12	100,000
May 24, 2016	Director	\$27 (US\$20,000)	Settled for 7,843 shares on November 23, 2016	Nil	Nil
July 18, 2016	Shareholder	\$ 1,333 (US\$1,000,000)	Settled for 392,157 shares on November 23, 2016	\$23. Settled with 6,818 shares on November 23, 2016.	300,000

## 18. SEGMENTED INFORMATION

The Company operates in one segment, the medical services and supply business.

## 19. COMMITMENTS AND CONTINGENCIES

### (a) Lease commitments

The Company entered into a five-year lease agreement for a facility in Goleta, California. The lease term commenced March 1, 2016 and monthly payments of rent and estimated lessor's operating costs are \$42 (US \$31) per month in the first year with base rent increasing by 3% per annum. The lease is guaranteed by the Company's Chief Executive Officer.

The Company's minimum payments required under this lease is as follows:

2017	\$	519
2018		534
2019		550
2020		452
Thereafter		-
		<hr/>
	\$	2,055

### (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.

## 20. SUBSEQUENT EVENTS

### a) Acquisition of Natural Health Services Ltd. ("NHS")

On February 8, 2017, the Company acquired all of the issued and outstanding shares of Natural Health Services Ltd. for \$22,500. NHS provides quality patient care through compassionate access to medical cannabis in its licensed medical clinics under the direction of physicians. The consideration consisted of:

- \$1,500 of cash;
- \$18,750 of common shares of the Company: 5,584,371 common shares at a price of US\$2.55 (Canadian equivalent of \$3.36) per share; and
- \$2,250 of promissory notes. These notes are due August 8, 2017 and are secured by the acquired NHS shares, and are non-interest bearing.

## 20. SUBSEQUENT EVENTS (Continued)

### b) Acquisition of Full Scale Distributors LLC (“FSD”)

On February 10, 2017, the Company acquired 100% of the membership interests in Full Scale Distributors, LLC for \$6,537 (US\$5,000,000) in consideration on closing plus an additional amount of contingent consideration. FSD designs and markets electronic vaporizing devices. The consideration issued on closing consisted of:

- \$1,961 (US\$1,500,000) in cash; and
- \$4,576 (US\$3,500,000) in a secured convertible promissory note. This note is due December 31, 2017 and bears interest at a rate of 0.74 percent per annum. This note is convertible, in whole or in parts, into common shares of the Company at any time at the option of the holder at a conversion price of US\$2.55 per common share. This note automatically converts into common shares of the Company immediately prior to the Company’s common shares being listed for trading on the TSX Venture Exchange and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US\$2.55 per common share. The note is secured by the membership interests.

The Company will be required to pay up to the following amounts as contingent consideration should certain revenue and EBITDA milestones be attained by FSD in each of the three calendar years following the date of acquisition:

Year Ended December 31,	If FSD Revenue is greater than or equal to US\$8,000,000 and less than US\$12,000,000 and EBITDA Margin Achieves 30%	If FSD Revenue is greater than or equal to US\$12,000,000 and EBITDA Margin Achieves 30%
2017	US\$150,000	US\$300,000
2018	US\$150,000	US\$300,000
2019	US\$150,000	US\$300,000
	US\$450,000	US\$900,000

The contingent consideration is predicated around an expected EBITDA margin of 30%. Should FSD not achieve a 30% EBITDA margin (as defined in the membership purchase agreement), the contingent consideration amounts in the table above will be multiplied by a fraction the numerator of which is the lesser of (i) 30% and (ii) FSD’s actual EBITDA margin percentage, and the denominator which is 30%.



## 20. SUBSEQUENT EVENTS (Continued)

### c) Private Placements of Common Shares

The Company has completed the following private placements of common shares:

<u>Date</u>	<u>Number</u>	<u>Price</u>	<u>Gross Proceeds</u>
January 27, 2017	1,039,215	US \$2.55	\$ 3,465
January 27, 2017	5,880	\$ 3.40	20
February 7, 2017	40,000	US\$ 2.55	134
February 7, 2017	263,675	\$ 3.40	896
	<u>1,348,770</u>		<u>\$ 4,515</u>

The Company paid finders' fees consisting of 7% cash and 7% finders' warrants which expire one year from issue date.

### d) Convertible promissory notes payable prepayment

On February 6, 2017, the holder of the convertible promissory notes payable exercised their option to accelerate payment of the notes. The Company repaid \$3,935 (US\$3,000,000) of the secured convertible promissory notes.

### e) Share option plan

On April 13, 2017, the directors of the Company approved a stock option plan for directors, employees, and consultants to issue up to 3,784,600 common shares in the Company. Stock options are subject to vesting conditions and are granted for a ten year term. On April 13, 2017, 2,650,000 options were granted at a price of \$3.40 per share.



**SUNNIVA INC.**

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in thousands of Canadian dollars)

For the three and six months ended June 30, 2017 and 2016

**SUNNIVA INC.**

## Condensed Interim Consolidated Statements of Financial Position (Unaudited)

As at June 30, 2017 and December 31, 2016

*In thousands of Canadian dollars*

	Notes:	June 30, 2017	December 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 4,301	\$ 9,613
Accounts receivable		2,889	33
Inventory		350	-
Assets held for sale	4	7,722	-
Loan receivable	3	-	100
Prepaid expenses and deposits		248	47
<b>Total current assets</b>		15,510	9,793
<b>Non-current assets</b>			
Deposits on leases and properties		349	273
Property, plant and equipment	4	354	2,031
Intangible assets	8	44,526	13,566
Other		25	-
<b>Total non-current assets</b>		45,254	15,870
<b>Total assets</b>		\$ 60,764	\$ 25,663
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 2,050	\$ 783
Deferred revenue	9	1,900	-
Secured promissory notes	10	19,461	9,333
Warrant liability	11	2,152	764
Provisions		-	202
Loans from shareholders		-	336
<b>Total current liabilities</b>		25,563	11,418
<b>Long term liabilities</b>			
Deferred income taxes		4,166	-
<b>Total long term liabilities</b>		4,166	-
<b>Total liabilities</b>		29,729	11,418
<b>Shareholders' equity</b>			
Share capital	12	47,003	23,815
Special warrants		5,366	-
Share subscriptions		-	84
Accumulated other comprehensive loss		(35)	(33)
Contributed surplus		759	415
Deficit		(22,058)	(10,036)
<b>Total shareholders' equity</b>		31,035	14,425
<b>Total liabilities and shareholders' equity</b>		\$ 60,764	\$ 25,663

Going concern (Note 2a) Commitments and contingencies (Note 16)

Approved on behalf of the Board of Directors:

*(signed) Dr. Anthony Holler*

Dr. Anthony Holler

*(signed) Leith Pedersen*

Leith Pedersen

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

**SUNNIVA INC.****Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)**

For the three and six months ended June 30

*In thousands of Canadian dollars, except as otherwise noted*

	Notes	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
<b>REVENUE</b>		\$ 3,280	\$ -	\$ 5,653	\$ -
<b>COST OF GOODS SOLD</b>		2,044	-	3,202	-
		1,236	-	2,451	-
<b>EXPENSES</b>					
Selling, general and administrative		3,990	1,096	6,246	1,924
Research and development		-	567	-	689
Costs associated with terminated acquisition	13	-	1,525	-	1,878
		3,990	3,188	6,246	4,491
<b>Loss before other expenses and taxes</b>		2,754	3,188	3,795	4,491
Other expenses					
Loss due to fair value increase in secured promissory notes and warranty liability	10,11	8,926	-	8,926	-
Foreign exchange loss (gain)		(275)	72	(233)	84
Loss before taxes		11,405	3,260	12,488	4,575
<b>Taxes</b>					
Deferred tax recovery		(336)	-	(466)	-
<b>Net loss attributable to the common shareholders</b>		11,069	3,260	12,022	4,575
Other comprehensive loss:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange gain on translation of foreign operation		(8)	(5)	(2)	2
<b>Total comprehensive loss for the period</b>		\$ 11,061	\$ 3,255	\$ 12,020	\$ 4,577
<b>Loss per share</b>	12(e)				
Weighted average number of shares outstanding					
Basic and diluted		25,638,492	20,217,917	24,170,053	19,856,734
Basic and diluted loss per share (dollars)		\$ 0.432	\$ 0.161	\$ 0.497	\$ 0.230

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

**SUNNIVA INC.**

Condensed Interim Consolidated Statements of Changes of Equity (Unaudited)

For the three and six months ended June 30, 2017 and 2016

*In thousands of Canadian dollars, except as otherwise noted*

	Note	Number of shares	Share capital	Share subscriptions	Contributed surplus	Special warrants	Accumulated other comprehensive gain (loss)	Deficit	Total
			\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2016		18,272,959	23,815	84	415	-	(33)	(10,036)	14,245
Common shares issued in private placements	12(b)	1,348,770	4,516	-	-	-	-	-	4,516
Common shares issued in Natural Health Services Ltd. acquisition	12(b)	5,584,371	18,750	-	-	-	-	-	18,750
Special warrants issued	12(c)	-	-	-	-	5,852	-	-	5,852
Share subscriptions settled		24,568	84	(84)	-	-	-	-	-
Shareholder loan converted to shares	12(b)	114,325	333	-	-	-	-	-	333
Finder's warrants issued in share offerings		-	(344)	-	344	-	-	-	-
Unrealized foreign exchange gain on translation of foreign subsidiaries		-	-	-	-	-	(2)	-	(2)
Share issuance costs		-	(151)	-	-	(486)	-	-	(637)
Loss for the period		-	-	-	-	-	-	(12,022)	(12,022)
Balance at June 30, 2017		25,344,993	47,003	-	759	5,366	(35)	(22,058)	31,035

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

**SUNNIVA INC.**

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

For the three and six months ended June 30, 2017 and 2016

*In thousands of Canadian dollars, except as otherwise noted*

	<b>Number of shares</b>	<b>Share capital</b>	<b>Share subscriptions</b>	<b>Contributed surplus</b>	<b>Accumulated other comprehensive gain (loss)</b>	<b>Deficit</b>	<b>Total</b>
<b>Note</b>		\$	\$	\$	\$	\$	\$
Balance at December 31, 2015	10,981,600	2,294	100	-	-	(3,149)	(755)
Common shares issued in private placements	-	12,604	-	-	-	-	12,604
Share subscriptions settled	-	-	(100)	-	-	-	(100)
Unrealized foreign exchange gain on translation of foreign subsidiaries.	-	-	-	-	2	-	2
Common shares issued in private placements	67,225	170	-	-	-	-	170
Share issuance costs	-	(106)	-	80	-	-	(26)
Loss for the period	-	-	-	-	-	(4,575)	(4,575)
Balance at June 30, 2016	11,048,825	14,962	-	80	2	(7,724)	7,320

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

**SUNNIVA INC.****Condensed Interim Consolidated Statements of Cash Flows (Unaudited)**

For the six months ended June 30, 2017 and 2016

In thousands of Canadian dollars

	Note	Six Months ended June 30, 2017	Six Months ended June 30, 2016
<b>Cash provided by (used in) operating activities</b>			
Net loss attributable to the common shareholders for the period		\$ (12,022)	\$ (4,575)
Adjustments for:			
Amortization and depreciation	4, 8	1,524	321
Fair value increase in secured promissory notes and warranty liability	10, 11	8,926	-
Deferred tax recovery		(466)	-
Amortization of provisions		(202)	-
Unrealized foreign exchange gain (loss)		(233)	2
Cashed used in operating activities before changes in operating assets and liabilities		(2,473)	(4,252)
Change in amounts receivable		(1,551)	61
Change in loan receivable		100	(117)
Change in inventory		(128)	-
Change in prepaid expenses		(75)	(69)
Change in accounts payable and accrued liabilities		(567)	762
Change in deferred revenue		1,845	-
Net cash used in operating activities		(2,849)	(3,615)
<b>Cash provided by (used in) financing activities</b>			
Loans from shareholders		-	1,849
Repayment of loans from shareholders		(3,934)	-
Net proceeds from issuance of warrants		5,366	-
Net proceeds from issuance of share capital	12	4,362	12,767
Net cash provided by financing activities		5,794	14,616
<b>Cash used in investing activities</b>			
Deposits on properties and leases		(47)	(171)
Purchase of property, plant, and equipment	4	(5,846)	(48)
Acquisitions	5, 6	(2,386)	(10,813)
Net cash used in investing activities		(8,279)	(11,032)
<b>Effect of foreign exchange on cash and cash equivalents</b>			
		22	-
<b>Decrease in cash</b>			
		(5,312)	(31)
Cash and cash equivalents, beginning of period		9,613	41
<b>Cash and cash equivalents, end of period</b>		<b>\$ 4,301</b>	<b>\$ 10</b>

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

## **SUNNIVA INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, except as otherwise noted)  
For the three and six months ended June 30, 2017 and 2016

### **1. REPORTING ENTITY**

Sunniva Inc., formerly Sunniva Holdings Corp., (the “Company”) is a company incorporated and headquartered in Canada. The Company was incorporated on August 11, 2014 under the Canadian Business Corporations Act. The principal activity of the Company is the identification and acquisition of corporate development opportunities within the medical cannabis sector, a sector subject to regulation by certain civic and state governments in the United States of America and by the Federal Government in Canada. The address of the Company’s registered office is 1200-200 Burrard Street, Vancouver, British Columbia, Canada. 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 United States despite being legalized for medical use in Canada and in individual states where the Company operates. The enforcement of these laws and its effect on the Company and its business, employees, directors and shareholders is uncertain and accordingly involve considerable risk (see “Management Discussion and Analysis for the six months ended June 30, 2017”).

These condensed Interim consolidated financial statements for the three and six months ended June 30, 2017 were authorized for issuance by the Board of Directors on August 11, 2017.

### **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 products offerings in the medical cannabis industry and grow its revenues.

These consolidated 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 June 30, 2017 has not generated sufficient revenue to finance its operations. The Company has an accumulated deficit of \$22,058 as at June 30, 2017 (December 31, 2016 - \$10,036) and incurred a net loss attributable to the common shareholders of \$12,022 for the six months ended June 30, 2017 (2016 - \$4,575).

The Company’s ability to continue as a going concern is dependent upon its ability to grow its revenues and achieve profitable operations, to convert its debentures into shares, assets held for sale 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 continue financing the operations of the Company, however there can be no certainty that such funds will be available on a timely basis and at terms acceptable to the Company.



**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**B) STATEMENT OF COMPLIANCE**

These condensed interim consolidated financial statements (“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 International Financial Reporting Interpretations Committee (IFRIC”).

The Condensed 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 these Condensed 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, 2016.

**B) BASIS OF CONSOLIDATION:**

These condensed interim consolidated 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 these condensed interim consolidated financial statements:

Subsidiary	Functional Currency	Jurisdiction of Incorporation
Sunniva Medical Inc.	CAD	Canada
Sunniva Technologies Corp.	CAD	Canada
Sun Holdings Management, LLC	USD	Delaware, USA
CP Logistics, LLC	USD	North Carolina, USA
Natural Health Services Ltd. (“NHS”)	CAD	Canada
Full Scale Distributors, LLC (“FSD”)	USD	Florida, USA

**3. LOAN RECEIVABLE**

As at June 30, 2017 the Company’s loan receivable outstanding balance is \$nil (December 31, 2016 \$100). This loan was unsecured and earned interest at a rate of 7% per annum. The loan and interest were collected on May 9, 2017.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**4. PROPERTY, PLANT AND EQUIPMENT**

	Land	Construction in progress	Equipment	Total
<b>Costs:</b>				
Balance, January 1, 2016	\$ 1,785	\$ 197	\$ 49	\$ 2,031
Additions	-	-	-	-
Balance, December 31, 2016	1,785	197	49	2,031
Acquisition of NHS (note 6)	-	-	225	225
Additions	5,052	688	106	5,846
Transferred to assets held for sale	(6,837)	(885)	-	(7,722)
Balance, Jun 30, 2017	\$ -	\$ -	\$ 380	\$ 380
<b>Accumulated Depreciation:</b>				
Balance, January 1, 2016	\$ -	\$ -	\$ -	\$ -
Additions	-	-	-	-
Balance, December 31, 2016	-	-	-	-
Additions	-	-	26	26
Balance, June 30, 2017	\$ -	\$ -	\$ 26	\$ 26
<b>Net book value</b>				
June 30, 2017	\$ -	\$ -	\$ 354	\$ 354
December 31, 2016	\$ 1,785	\$ 197	\$ 49	\$ 2,031

During the six months ended June 30, 2017, included in corporate expenses was depreciation of \$26 (2016 \$nil).

The Company executed a memorandum of understanding on April 13, 2017 with a related party to dispose of its property and construction in progress. The Company reclassified the carrying value of the assets to "assets held for sale" in accordance with the requirements of IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. There were no adjustments required to the carrying amount of the assets on reclassification to the assets held for sale as the fair value less costs of disposal are expected to recover the carrying amount.

**5. Acquisition of Natural Health Services Ltd.**

On February 8, 2017, the Company acquired all of the issued and outstanding shares of Natural Health Services Ltd. for \$22,500. NHS provides quality patient care under the direction of physicians through compassionate access to medical cannabis in its licensed medical clinics.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**5. Acquisition of Natural Health Services Ltd. (continued)**

The consideration consisted of \$1,500 in cash, \$18,750 of common shares of the Company (5,584,371 common shares at a price of US\$2.55 (Canadian equivalent of \$3.31 per share),) and \$2,250 of promissory notes. The shares were accounted for at their fair value at the date of issuance. These promissory notes are due August 8, 2017 and are secured by the acquired NHS shares, and are non-interest bearing. The promissory notes were repaid on August 8, 2017.

The acquisition has been accounted for as a business combination, using the acquisition method. The purchase consideration provided was allocated to the fair value of the identifiable assets acquired and liabilities assumed as follows:

	Amount
Net assets acquired	\$ 15,941
Goodwill	6,559
Total purchase price	<u>\$ 22,500</u>

Fair value of the net assets acquired included the following:

	Amount
Cash	\$ 962
Accounts receivable	668
Inventory	64
Other	126
Property, plant, and equipment	225
Software (see "Note 8")	19,575
Goodwill (see "Note 8")	6,559
Accounts payable	(972)
Deferred revenue	(55)
Deferred income taxes	(4,632)
Leasehold allowance	(20)
Net assets acquired	<u>\$ 22,500</u>

Net cash outflow on acquisition of NHS is as follows:

	Amount
Cash consideration – on closing	\$ 1,500
Cash consideration- upon note repayment	2,250
Net cash outflow	<u>\$ 3,750</u>

Goodwill arose in the acquisition of NHS because the cost of acquisition included amounts in relation to the benefit of expected revenue growth and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on acquisition is expected to be deductible for tax purposes.

## SUNNIVA INC.

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

### 5. Acquisition of Natural Health Services Ltd. (continued)

The revenue and operating income (loss) included in the condensed interim consolidated statement of loss since February 8, 2017 is \$4,113 and \$(394), respectively. Had the acquisition occurred on January 1, 2017, the condensed interim consolidated statement of loss for the six months ended June 30, 2017 would have shown revenue and operating income (loss) of \$4,750 and \$(502) respectively. These pro-forma amounts are estimated based on the operation of the acquired business prior the business combination by the Company.

Acquisition related costs have been excluded from the consideration transferred and have been recognized as an expense in the current period.

As the accounting for the acquisition is incomplete as at June 30, 2017, the Company has reported provisional amounts for the items for which the accounting is incomplete. Those provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

### 6. Acquisition of Full Scale Distributors, LLC

On February 10, 2017, the Company acquired 100% of the membership interests in Full Scale Distributors, LLC for \$6,537 (US\$5,000) in consideration on closing plus an additional amount of contingent consideration. FSD designs and markets electronic vaporizing devices.

The consideration issued on closing consisted of \$1,961 (US\$1,500) in cash; and \$4,576 (US\$3,500) in a secured promissory note (see "Note 10"). This note is due December 31, 2017 and bears interest at a rate of 0.74 percent per annum. This note is convertible, in whole or in part, into common shares of the Company at any time at the option of the holder at a conversion price of US\$2.55 per common share. This note automatically converts into common shares of the Company immediately prior to the Company's common shares being listed for trading on the TSX Venture Exchange or equivalent and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US\$2.55 per common share. The note is secured by the membership interests.

The acquisition has been accounted for as a business combination, using the acquisition method. The purchase consideration provided was allocated to the fair value of the identifiable assets acquired and liabilities assumed as follows:

	<u>Amount</u>
Net assets acquired	\$ 144
Goodwill	<u>6,393</u>
Total purchase price	<u>\$ 6,537</u>

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, except as otherwise noted)  
For the three and six months ended June 30, 2017 and 2016

**6. Acquisition of Full Scale Distributors, LLC (continued)**

Fair value of the net assets acquired included the following:

	<u>Amount</u>
Cash	\$ 45
Accounts receivable	637
Inventory	159
Other	29
Goodwill (note 8)	6,393
Accounts payable	(497)
Deposits - customer	(229)
Net assets acquired	<u>\$ 6,537</u>

Net cash outflow on acquisition of FSD is as follows:

	<u>Amount</u>
Cash consideration – on closing	<u>\$ 1,961</u>

Goodwill arose in the acquisition of FSD because the cost of acquisition included amounts in relation to the benefit of expected revenue growth, existing offshore manufacturer relationships, and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on acquisition is expected to be deductible for tax purposes.

The revenue and operating income (loss) included in the condensed interim consolidated statement of loss since February 10, 2017 is \$1,540 and \$(96), respectively. Had the acquisition occurred on January 1, 2017, the condensed interim consolidated statement of loss for the six months ended June 30, 2017 would have shown revenue and operating income of \$2,600 and \$(4) respectively. These pro-forma amounts are estimated based on the operation of the acquired business prior the business combination by the Company.

As the accounting for the acquisition was incomplete as at June 30, 2017, the Company has reported provisional amounts for the items for which the accounting is incomplete. Those provisional amounts may be adjusted during the measurement period, or additional assets or liabilities may be recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisition related costs have been excluded from the consideration transferred and have been recognized as an expense in the current period.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**6. Acquisition of Full Scale Distributors, LLC (continued)**

The Company will be required to pay up to the following amounts as contingent consideration should certain revenue and EBITDA (defined as earnings before interest, taxes, depreciation, and amortization) milestones be attained by FSD in each of the three calendar years following the date of acquisition:

Year Ended December 31,	If FSD Revenue is greater than or equal to US\$8,000,000 and less than US\$12,000,000 and EBITDA Margin is 30%	If FSD Revenue is greater than or equal to US\$12,000,000 and EBITDA Margin is 30%
2017	US\$150,000	US\$300,000
2018	US\$150,000	US\$300,000
2019	US\$150,000	US\$300,000
	US\$450,000	US\$900,000

The contingent consideration is predicated around an expected EBITDA margin of 30%. Should FSD not achieve a 30% EBITDA margin, the contingent consideration amounts in the table above will be multiplied by a fraction of the numerator of which is the lesser of (i) 30% and (ii) FSD's actual EBITDA margin percentage, and the denominator which is 30%.

Management continues to work on refining the estimate of the contingent consideration, and the related amounts are subject to change. The purchase price allocation relating to the acquisition is not yet finalized and the allocation of the price to the various assets acquired is subject to change. Once the estimate related to the contingent consideration is finalized the amount of the estimate will be included in the purchase price.

**7. Acquisition of CP Logistics, LLC ("CPL")**

On November 17, 2016, the Company entered into a purchase agreement with the members of CP Logistics, LLC ("CPL") pursuant to which the Company acquired all of the outstanding membership interests of CPL. The acquisition closed on December 15, 2016. The purchase price was \$13,553 (US\$10,135) consisting of \$4,220 of cash consideration (US\$3,135) and \$9,333 (US\$7,000) in secured promissory note (note 10). CPL's assets included 5 licenses, which are included in intangible assets. The value of these licenses is inseparable as they are inter-related. Directly attributable legal fees of \$46 were also included in the cost of the asset.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**8. INTANGIBLE ASSETS**

	Licenses	Software	Goodwill	Total
<b>Costs:</b>				
Balance, January 1, 2016	\$ -	\$ -	\$ -	\$ -
Additions (note 7)	13,599	-	-	13,599
Foreign exchange adjustment	(33)	-	-	(33)
Balance, December 31, 2016	13,566	-	-	13,566
Acquisition of NHS (note 5)	-	19,575	6,559	26,134
Acquisition of FSD (note 6)	-	-	6,325	6,325
Balance, June 30, 2017	\$ 13,566	\$ 19,575	\$ 12,884	\$ 46,025

	Licenses	Software	Goodwill	Total
<b>Accumulated amortization:</b>				
Balance, January 1, 2016	\$ -	\$ -	\$ -	\$ -
Amortization	-	-	-	-
Balance, December 31, 2016	-	-	-	-
Amortization	-	1,499	-	1,499
Balance, June 30, 2017	\$ -	\$ 1,499	\$ -	\$ 1,499

**Net Book Value:**

June 30, 2017	\$ 13,566	\$ 18,076	\$ 12,884	\$ 44,526
December 31, 2016	\$ 13,566	\$ -	\$ -	\$ 13,566

The Company performs impairment testing at least annually on December 31 and whenever impairment indicators are identified. As at June 30, 2017 no impairment indicators were identified. For the six month period ended June 30, 2017 included in selling, general, and administrative was amortization of \$1,499 (2016 \$nil).

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**9. DEFERRED REVENUE**

The Company bills customers one year in advance for the use of its software technology based on the number of clients it refers to the customer. The Company amortizes the amounts billed over a 12 month period.

	Amount
Balance, January 1, 2017	\$ -
Acquired on NHS acquisition (see "Note 5")	55
Invoiced amounts	2,399
Revenue recognized during the period	(554)
Balance, June 30, 2017	\$ 1,900

**10. SECURED PROMISSORY NOTES**

On February 8, 2017, the Company issued secured promissory notes in an aggregate principal amount of \$2,250 relating to the NHS acquisition. These promissory notes are due on August 8, 2017 and are secured by the acquired NHS shares, and are non-interest bearing. The promissory notes were repaid on August 8, 2017.

On February 10, 2017, the Company issued a secured convertible promissory note (the "FSD note") in an aggregate principal amount of \$4,542 (US\$3,500) relating to the FSD acquisition. The FSD note matures on December 31, 2017 and accrues interest at a rate of 0.75% per annum. The note is secured by the acquired FSD membership interest.

The FSD note is convertible, in whole or in part, into common shares of the Company at any time at the option of the holder at a conversion price of US\$2.55 (the "Conversion Price"), subject to adjustment in certain circumstances. The FSD note automatically converts into common shares of the Company at such time that the common shares of the Company are listed on the TSX Venture Exchange or equivalent and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US\$2.55 per common share.

On December 15, 2016, the Company issued secured convertible promissory notes (the "Notes") in an aggregate principal amount of \$9,333 (US\$7,000). The Notes mature on December 31, 2017 and accrue interest at a rate of 0.5% per annum. During the six month period ended June 30, 2017 the Company repaid \$3,934 (\$3,000 USD).

The Notes are convertible, in whole or in part, into common shares of the Company at any time at the option of the holders at a conversion price of US\$2.55 (the "Conversion Price"), subject to adjustment in certain circumstances. The Notes automatically convert into common shares of the Company at such time that the common shares of the Company are listed on the TSX Venture Exchange and have been trading for a period of at least thirty trading days at an average price equal to or in excess of US\$2.55 per common share.



**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**10. SECURED PROMISSORY NOTES (continued)**

The FSD note and Notes are compound financial instruments. Although the issue and repayment amount are fixed in the foreign currency amounts, when converted back to the Company's functional currency it results in a variable amount of cash (that is, a variable carrying amount for the financial liability that arises from changes in exchange rates), and hence the conversion feature does not meet the 'fixed-for-fixed' criteria for equity classification. The conversion feature is therefore a derivative liability, where the value of the conversion feature is dependent on foreign exchange rates. The Company has elected to use the fair value option method and valued the embedded derivative and instrument collectively at fair value.

The weighted average grant date fair value of the FSD notes was determined to be \$1.00 per share for a total of \$4,542. As at June 30, 2017, the fair value of the FSD note was determined to be \$3.33. The FSD note has a fair value of \$8,020 at that date.

The weighted average grant date fair value of the Notes was determined to be \$9,333. As at June 30, 2017, the fair value of the Notes was determined to be \$3.55. The remaining Notes of \$5,399 have a fair value of \$9,399.

The fair value of these Notes and the FSD note was determined on the date of the grant and at June 30, 2017 using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.55%;
- expected life of 3 years;
- expected volatility of 75%; and
- expected dividends of \$Nil.

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

	Amount
Balance, at January 1, 2017	\$ 9,333
Repayment of promissory notes	(3,934)
Issuance of promissory notes for NHS acquisition (see "Note 5")	2,250
Issuance of promissory note for FDS acquisition (see "Note 6")	4,542
Valuation adjustment for FDS note	3,478
Valuation adjustment for the Notes	4,000
Foreign exchange adjustment	(208)
Balance, as at June 30, 2017	<u>\$ 19,461</u>

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**11. WARRANT LIABILITY**

As at June 30, 2017, the Company had the following warrant liability incurred 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:

<u>Issue Date</u>	<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
April 12, 2016	100,000	US \$2.55	April 12, 2019
May 1, 2016	100,000	US \$2.55	May 1, 2019
July 19, 2016	300,000	US \$2.55	July 19, 2019
	<u>500,000</u>		

As at June 30, 2017 the fair value of the warrants is \$4.06 per warrant. The warrants have a fair value of \$2,212. The fair value of these warrants was determined on the date of the grant and June 30, 2017 using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.55%;
- expected life of 3 years;
- expected volatility of 75%; and
- expected dividends of \$Nil.

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

	<u>Amount</u>
Balance, January 1, 2017	\$ 764
Valuation adjustment	1,448
Foreign exchange adjustment	(60)
Balance, June 30, 2017	<u>\$2,152</u>

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

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

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

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

Date		Number of Shares	Price	Total
December 31, 2016	Balance	18,272,959		\$ 23,815
January 27, 2017	Private placement	1,039,215	\$3.33 (US\$2.55)	3,465
January 27, 2017	Private placement	5,880	\$3.40	20
February 07, 2017	Private placement	40,000	\$3.36 (US\$2.55)	134
February 07, 2017	Private placement	263,675	\$3.40	897
February 07, 2017	Private placement	1,960	\$3.38 (US\$2.55)	6
February 07, 2017	Private placement	3,000	\$3.40	10
February 08, 2017	Acquisition of Natural Health Services Ltd.	5,584,371	\$3.40	18,750
April 11, 2017	Private placement	19,608	\$3.44 (US\$2.55)	68
June 22, 2017	Conversion of shareholder loans	114,325	\$2.91	333
	Share issuance costs and finders warrant			(495)
June 30, 2017	Balance	25,344,993		\$ 47,003

**(c) Special Warrants**

On June 26, 2017, the Company received net proceeds of \$5,366 for the issuance of 866,900 warrants. Each warrant is exercisable into one common share of the Company upon the receipt of a prospectus filing. If the prospectus filing receipt is issued later than October 28, 2017, the Company will incur a 10% penalty.

**(d) Finders' Warrants**

During the six months ended June 30, 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:

Date	Number	Exercise Price	Expiry Date
January 1, 2017	328,239	\$3.40	December 28, 2017
February 7, 2017	18,375	\$3.40	February 7, 2018
June 15, 2017	100,000	\$6.75	June 15, 2018
June 26, 2017	51,683	\$6.75	June 26, 2018
June 26, 2017	11,112	\$6.75	June 26, 2018
	<u>509,409</u>		

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

The weighted average grant date fair value of the finder's warrants was determined to be \$2.00 per warrant for a total of \$326. The fair value of these finder's 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 3 years;
- expected volatility of 75%; and
- expected dividends of \$Nil.

**(e) Loss per share:**

The calculation of loss per share is as follows:

Three months ended June 30, 2017			Three months ended June 30, 2016		
Loss	Weighted average number of common shares outstanding	Loss per share	Loss	Weighted average number of common shares outstanding	Loss per share
\$ 11,069	25,638,492	\$ 0.432	\$3,260	20,217,917	\$ 0.161

Six months ended June 30, 2017			Three months ended June 30, 2016		
Loss	Weighted average number of common shares outstanding	Loss per share	Loss	Weighted average number of common shares outstanding	Loss per share
\$ 12,022	24,170,053	\$ 0.497	\$4,575	19,856,734	\$ 0.230

**13. Costs associated with terminated acquisition**

In July 2016, the acquisition of a vaporizer device manufacturer was unwound: the Company returned the assets acquired back to the vendors and the 7,870,000 common shares of the Company issued to the vendors were returned to treasury at a deemed price of \$1.25 per share and then cancelled. The vendors retained the cash payments. For the three months ended and six months ended June 30, 2016 the cash payments were \$1,525 and \$1,878 respectively.

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**14. 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

Key management personnel compensation, including directors and officers, is as follows:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Consulting fees and wages	<u>\$ 416</u>	<u>\$ 232</u>	<u>\$ 755</u>	<u>\$ 629</u>

Amounts due to related parties is as follows as at June 30:

	June 30, 2017	December 31, 2016
Loans from shareholder	<u>\$ -</u>	<u>\$ 336</u>

## (b) Lease Guarantee

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

## (c) Secured Promissory Note

As at June 30, 2017, the Company has an outstanding secured promissory note of \$451 to a director and officer. This secured promissory note was repaid on August 8, 2017.

**15. 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. For the six months ended June 30, 2017 and 2016:

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

<b>June 30, 2017</b>	Patient Counselling	Merchandising	Corporate	Total
<b>Revenue</b>	\$ 4,113	\$ 1,540	\$ -	\$ 5,653
<b>Cost of goods sold</b>	2,016	1,186	-	3,202
	2,097	354	-	2,451
<b>Expenses</b>				
Selling, general and administration	3,826	450	1,970	6,246
<b>Loss from operations</b>	(1,729)	(96)	(1,970)	(3,795)
<b>Property, plant and equipment expenditures</b>				
	-	-	5,846	5,846
<b>Intangibles</b>	24,635	6,325	13,566	44,526
<b>Total assets</b>	30,301	7,574	22,799	60,764
<b>Total liabilities</b>	2,597	613	26,519	29,729

<b>June 30, 2016</b>	Patient Counselling	Merchandising	Corporate	Total
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Cost of goods sold</b>	-	-	-	-
	-	-	-	-
<b>Expenses</b>				
Selling, general and administration	-	-	1,924	1,924
Research and development	-	-	689	689
Cost associated with terminated acquisition	-	-	1,878	1,878
<b>Loss from operations</b>	-	-	(4,491)	(4,491)
<b>Property, plant and equipment expenditures</b>				
	-	-	48	48
<b>Intangibles</b>	-	-	10,813	10,813
<b>Total assets</b>	-	-	11,336	11,336
<b>Total liabilities</b>	-	-	4,011	4,011

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

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

For the three and six months ended June 30, 2017 and 2016

**15. SEGMENTED INFORMATION (continued)**

For the three months ended June 30, 2017 and 2016:

<b>June 30, 2017</b>	Patient Counselling	Merchandising	Corporate	Total
<b>Revenue</b>	\$ 2,449	\$ 831	\$ -	\$ 3,280
<b>Cost of goods sold</b>	1,331	713	-	2,044
	1,118	118	-	1,236
<b>Expenses</b>				
Selling, general and administration	2,523	355	1,112	3,990
<b>Loss from operations</b>	(1,405)	(237)	(1,112)	(2,754)
<b>June 30, 2016</b>	Patient Counselling	Merchandising	Corporate	Total
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Cost of goods sold</b>	-	-	-	-
	-	-	-	-
<b>Expenses</b>				
Selling, general and administration	-	-	1,096	1,096
Research and development	-	-	567	567
Cost associated with terminated acquisition	-	-	1,525	1,525
<b>Loss from operations</b>	-	-	(3,188)	(3,188)

**16. COMMITMENTS AND CONTINGENCIES**

(a) Lease commitments

The Company's minimum rental payments required under its facility leases are as follows:

2017	\$ 567
2018	1,116
2019	1,382
2020	1,326
Thereafter	3,825
	<u>\$ 8,216</u>

**SUNNIVA INC.**

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)  
(Expressed in thousands of Canadian dollars, except as otherwise noted)  
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**16. COMMITMENTS AND CONTINGENCIES (continued)****(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.

**17. SUBSEQUENT EVENT**

The Company repaid the NHS former shareholders promissory notes of \$2,250 on August 8, 2017.



**APPENDIX A**  
**BOARD MANDATE**  
**SUNNIVA INC.**

**MANDATE OF THE BOARD OF DIRECTORS**

**A. STEWARDSHIP**

1. Subject to the constating documents of the Sunniva Inc. (the “**Corporation**”) and applicable law, the board of directors of the Corporation (the “**Board**”) has a stewardship responsibility to:
  - (a) supervise the management of and to oversee the conduct of the business of the Corporation;
  - (b) provide leadership and direction to management;
  - (c) evaluate management;
  - (d) set policies appropriate for the business of the Corporation;
  - (e) approve corporate strategies and goals; and
  - (f) nominate directors.
2. The day to day management of the business and affairs of the Corporation is delegated by the Board to the Chief Executive Officer (the “**CEO**”). The Board will give direction and guidance through the CEO to management and the CEO will keep management informed of the Board’s evaluation of the executive officers in achieving and complying with established goals and policies.

**B. DIRECTOR OBLIGATIONS**

Each director has the responsibility to:

1. attend all regularly scheduled meetings of the Board and all of the committees on which they serve and to be prepared for such meetings by reviewing materials provided in advance of meetings;
2. act honestly and in good faith with a view to the best interests of the Corporation; and
3. exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**C. BOARD RESPONSIBILITIES**

1. The Board shall:
  - (a) before each annual general meeting, recommend nominees to the shareholders for election as directors for the ensuing year;
  - (b) identify, review the qualifications of and approve candidates to fill vacancies on the Board between annual general meetings;

- (c) appoint a corporate governance and nominating committee, an audit committee and a compensation committee and appoint the Chair of each committee;
  - (d) establish the mandate, duties and responsibilities of each committee of the Board;
  - (e) elect a Chair of the Board and, when desirable, a vice-chair of the Board, and establish their duties and responsibilities;
  - (f) where it is not appropriate for the Chair to be an independent director, the Board should consider whether it should appoint an independent director to act as a lead director;
  - (g) appoint the CEO of the Corporation, who shall be a member of the Board, and establish the duties and responsibilities of the CEO; and
  - (h) on the recommendation of the CEO, appoint the senior officers of the Corporation and approve the senior management structure of the Corporation.
2. A principal responsibility of the Chair of the Board will be to manage, and act as the chief administrative officer of, the Board with such duties and responsibilities as the Board may establish from time to time.

#### D. BOARD MEETINGS

The Board shall meet in person, or by telephone conference call (or by other means permitted by applicable laws) as required to carry out its mandate not less than four times during each year and will endeavour to hold one meeting in each quarter. The Board will also meet at any other time at the call of the Chair of the Board or, subject to the Articles of the Corporation and applicable law, the CEO or any director.

#### E. SPECIFIC RESPONSIBILITIES

1. The Board has the following specific duties and responsibilities:
- (a) approve, supervise and provide guidance on the strategic planning process of the Corporation. The CEO and senior management team will have direct responsibility for the ongoing strategic planning process and the establishment of long term goals for the Corporation, which are to be reviewed and approved by the Board. The Board will provide guidance to the CEO and senior management team on the Corporation's ongoing strategic plan. Based on the reports from the CEO, the Board will monitor the success of management in implementing the approved strategies and goals;
  - (b) identify the principal risks of the Corporation's business and use reasonable steps to ensure the implementation of appropriate systems to manage these risks;
  - (c) use reasonable steps to ensure the Corporation has management of the highest calibre. This responsibility is carried out primarily through the appointment of the CEO as the Corporation's business leader. The Board will assess, on an ongoing basis, the CEO's performance against criteria and objectives established by the Board from time to time. The Board will also use reasonable steps to ensure that the CEO has in place adequate programs to train, develop and assess the performance of senior management;
  - (d) keep in place adequate and effective succession plans for the CEO and senior management;
  - (e) place limits on management's authority;
  - (f) oversee the integrity of the Corporation's internal control and management information systems;

- (g) oversee the Corporation's communications policy. The Board will monitor the policies and procedures that are in place to provide for effective communication by the Corporation with its shareholders and with the public generally, including effective means to enable shareholders to communicate with senior management and the Board. The Board will also monitor the policies and procedures that are in place to maintain a strong, cohesive and positive image of the Corporation with its shareholders, its industry, governments and the public generally;
- (h) require that the Board be kept informed of the Corporation's activities and performance and take appropriate action to correct inadequate performance;
- (i) approve all significant capital plans and establish priorities for the allocation of funds to ongoing operations and capital projects;
- (j) approve all single expenditure items proposed by the Corporation exceeding \$250,000 not provided for in any approved capital plan;
- (k) provide for the independent functioning of the Board. The Board will put in place appropriate procedures to enable the Board to function independently of management at such times as is desirable or necessary through:
  - (i) the institution of mechanisms to allow directors who are independent of management an opportunity to discuss issues in the absence of management; and
  - (ii) the engagement of outside advisers by directors at the Corporation's expense subject to the approval of the Corporate Governance and Nominating Committee.
- (l) adopt a formal code of business ethics that governs the behaviour of its directors, officers and employees. The Board will monitor compliance with the code of business conduct and ethics and is responsible for granting any waivers;
- (m) develop the Corporation's approach to corporate governance including adopting a set of principles and guidelines specifically applicable to the Corporation; and
- (n) nominate directors.

#### F. LIMITATION

1. The duties and responsibilities set out above do not extend, and are not to be interpreted as extending, the obligations and liabilities of the directors beyond those imposed by applicable law and in each case are subject to the constating documents of the Corporation and applicable law.

#### G. DUTIES AND RESPONSIBILITIES OF THE CHAIR OF THE BOARD OF DIRECTORS

The Chair of the Board shall manage, and act as chief administrative officer of, the Board with the following specific duties and responsibilities:

1. act as the chair, unless absent, at all meetings of the shareholders and the Board;
2. act as the spokesperson for the Board;
3. review the agenda for each meeting of the Board;
4. ensure the Board is organized properly, functions effectively and assist the Board in the discharge of its mandate and responsibilities;

5. work with the CEO to ensure effective relations with Board members, shareholders, other stakeholders and the public; and
6. approve and sign on behalf of the Board all communications and reports from the Board to the shareholders.

Such other duties and responsibilities as may be determined by the Board.

#### Limitation

The duties and responsibilities set out above do not extend, and are not to be interpreted as extending, the obligations and liabilities of the Chair of the Board beyond those imposed by applicable law and in each case are subject to the constating documents of the Corporation and applicable law.

#### H. DUTIES AND RESPONSIBILITIES OF THE CHIEF EXECUTIVE OFFICER

1. The CEO shall manage, and administer the day to day operation of the Corporation with the following specific duties and responsibilities:
  - (a) report to the Board and act as a liaison between management and the board;
  - (b) evaluate management operations and report to the Board on results;
  - (c) conduct ongoing strategic planning and establish long term goals for the Corporation;
  - (d) assist the Board with policy development; and
  - (e) train, develop and assess the performance of senior management.
2. The CEO is responsible for meeting the corporate objectives of the Corporation as are periodically developed by the Board in consultation with management.
3. Such other duties and responsibilities as may be determined by the Board.

#### Limitation

The duties and responsibilities set out above do not extend, and are not to be interpreted as extending, the obligations and liabilities of the CEO beyond those imposed by applicable law and in each case are subject to the constating documents of the Corporation and applicable law.

Approved by the Board effective August 30, 2017

## APPENDIX B

### AUDIT COMMITTEE MANDATE

#### SUNNIVA INC.

### AUDIT COMMITTEE MANDATE

#### A. PURPOSE

The audit committee (the “**Audit Committee**”) of Sunniva Inc. (the “**Corporation**”) is responsible for ensuring accounting integrity and solvency. The Audit Committee is also responsible for ensuring the appropriateness of insurance and investment of liquid funds. The Audit Committee will assist the board of directors of the Corporation (the “**Board**”) in fulfilling its oversight responsibilities by:

- reviewing the integrity of the consolidated financial statements of the Corporation;
- appointing (subject to shareholder ratification if required), determining funding for, and overseeing the external auditor and reviewing the external auditor’s qualifications and independence;
- reviewing the performance of the Corporation’s external auditors;
- reviewing the timely compliance by the Corporation with all legal and regulatory requirements for audit and related financial functions of the Corporation;
- reviewing, and if applicable, approving, financial information contained in public filings of the Corporation prior to filing;
- reviewing earnings announcements of the Corporation prior to release to the public;
- reviewing the Corporation’s systems of and compliance with internal financial controls;
- reviewing the Corporation’s auditing, accounting and financial reporting processes;
- dealing with all complaints regarding accounting, internal accounting controls and auditing matters; and
- dealing with any issues that result from the reviews set forth above.

In performing its functions, the Audit Committee must comply with the requirements of applicable rules and laws, including National Instrument 52-110 *Audit Committees* (“**NI 52-110**”) and applicable exchange policies. Nothing herein is intended to expand, or shall result in the expansion of, applicable standards of liability under Canadian law for directors of a corporation.

#### B. MEMBERSHIP

1. The Audit Committee will have a minimum of three members.
2. The members of Audit Committee must include that number of independent individuals as is prescribed by applicable securities laws, regulations and policies. “Independent” shall have the meaning, given to it in NI 52-110, as may be amended from time to time.
3. At the time of his or her appointment to the Audit Committee, each member of the Audit Committee shall be financially literate. “Financial literacy” shall be determined by the Board in the exercise of its business judgment, and shall include the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

4. Appointments and replacements to the Audit Committee will be made by the Board and will be reviewed on an annual basis. The Board will provide for continuity of membership, while at the same time allowing fresh perspectives to be added. The Board may remove the members of the Committee, with or without cause.
5. The Chair of the Audit Committee will be appointed by the Board.

#### C. MEETINGS

1. The Audit Committee may meet, in person, telephonically or electronically, as many times per year as necessary to carry out its responsibilities, but must meet at least once every quarter. No business may be transacted at a meeting unless a quorum of the Audit Committee is present. Two members of the Audit Committee shall constitute a quorum.
2. The Audit Committee shall maintain minutes or other forms of records of the meetings and activities of the Audit Committee in sufficient detail to convey the substance of all discussions held, and shall report to the Board, within a reasonable time period, the proceedings of the Audit Committee and any recommendations made by the Audit Committee.
3. Meetings of the Audit Committee will be held at the request of any member of the Audit Committee or at the request of the Corporation's external auditors. The Corporation's external auditor is entitled to receive notice of every meeting of the Audit Committee and to attend and be heard at every meeting, at the expense of the Corporation and, if so requested by a member of the Audit Committee, shall attend every meeting of the committee held during the term of office of the auditor.
4. The Audit Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. Provision will be made to meet privately with external auditors.

#### D. FINANCIAL REVIEW

1. The Audit Committee will review the Corporation's financial statements, management discussion and analysis ("MD&A") and the related press releases before such documents are presented to the Board or disclosed publicly, as the case may be.
2. The Audit Committee will review the interim financial statements of the Corporation, the related MD&A, and the press release thereon. If advisable, the Audit Committee shall approve, on behalf of the Board, the interim financial statements and related MD&A for public disclosure.
3. The Audit Committee will review the annual audited financial statements of the Corporation, the auditor's report thereon, the related MD&A, and the press release thereon. If advisable, the Audit Committee shall approve and recommend for Board approval the annual financial statements and related MD&A.
4. The Audit Committee will review other financial information and financial documents that require the approval of the Board. These will include statements in prospectuses and other offering memoranda, news release containing financial information, or other documents including financial outlooks or future oriented financial information and statements required by regulatory authorities. After completing its review, if advisable, the Audit Committee shall approve and recommend for Board approval such financial information.
5. The Audit Committee will issue any necessary reports required of the Audit Committee to be included in the Corporation's annual proxy materials.
6. The Audit Committee will review and discuss with management and the external auditor any major issue as to the adequacy and effectiveness of internal controls over the accounting and financial reporting systems of the Corporation, either directly, or through the external auditors or other advisors and obtain and review a report from the external auditor, at least annually, regarding the same; and the Audit Committee will review and discuss with management and the external auditor any special steps adopted in light of material

internal control deficiencies and the adequacy of disclosures about changes in internal controls over financial reporting.

7. The Audit Committee will review, with the external auditors, the results of the external audit and any changes in accounting practices or policies, or in the financial statements as a result thereof. In addition, the Audit Committee will review any accruals, provisions, or estimates that have a significant effect upon the financial statements, as well as other sensitive matters such as disclosure of related party transactions.
8. The Audit Committee will discuss with management and the external auditor any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Corporation's financial statements or accounting policies.

#### E. AUDITORS

1. The Audit Committee is responsible for overseeing the work of the external auditor and will communicate directly with the external auditors as required. The external auditor of the Corporation must report directly to the Audit Committee.
2. The Audit Committee will be responsible for resolving disagreements between the auditors and the Company's management.
3. The Audit Committee shall review and, if advisable, select and recommend for Board approval the external auditors to be nominated and the compensation of such external auditor. The Audit Committee shall have ultimate authority to approve all audit engagement terms and fees.
4. The Audit Committee will evaluate the qualifications, performance and independence of the external auditor and the senior audit partners having primary responsibility for the audit, including considering whether the auditor's quality controls are adequate.
5. The Audit Committee will receive from the external auditor a formal written statement delineating all relationships between the external auditor and the Corporation and will actively engage in a dialogue with the external auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
6. The Audit Committee must pre-approve all non-audit services to be provided to the Corporation or its subsidiaries by the external auditor. Notwithstanding the foregoing, the Audit Committee: (a) may delegate to one or more independent members the authority to pre-approve any non-audit service to be provided by the external auditor, to the extent permitted by applicable law, provided that any pre-approvals granted pursuant to such delegation will be reported to the full Audit Committee at its next scheduled meeting; and (b) establish policies and procedures, from time to time, pre-approving certain non-audit services to be provided by the external auditor, provided (i) such pre-approval policies and procedures are detailed as to the particular service, (ii) the Audit Committee is informed of each non-audit service, and (iii) the procedures do not include delegation of the Audit Committee's responsibilities to management.
7. The Audit Committee will review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of the present and former external auditor of the Corporation.
8. The Audit Committee has the authority, to the extent it deems necessary or appropriate, to retain independent counsel and any other advisors. The Corporation will provide appropriate funding, as determined by the Audit Committee, for payment of compensation to the external auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services and to any advisors employed by the Audit Committee.

#### F. MISCELLANEOUS

1. The Audit Committee will establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and for

the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

2. The Audit Committee will review the policies and practices of the Corporation regarding the regular examination of officers' expenses and perquisites, including the use of the assets of the Corporation.
3. The Audit Committee will ensure and periodically assess that policies and procedures to maintain the integrity of the Corporation's public disclosure of financial information extracted or derived from its financial statements are in place and are effective.
4. The Corporation must provide appropriate funding, as determined by the Audit Committee, for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.
5. The Audit Committee will review and, if advisable, approve all related party transactions.
6. The Audit Committee will review and reassess the adequacy of this mandate as it deems appropriate.

Approved by the Board effective August 30, 2017



**CERTIFICATE OF SUNNIVA INC.**

Dated: September 25, 2017

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered issued by this prospectus as required by the securities legislation of British Columbia, Alberta and Ontario.

(Signed) *Dr. Anthony F. Holler*  
Dr. Anthony F. Holler  
Chief Executive Officer

(Signed) *R. Michael Steele*  
R. Michael Steele  
Chief Financial Officer

**On behalf of the Board of Directors**

(Signed) *Leith Pedersen*  
Leith Pedersen  
Director

(Signed) *Daniel Vass*  
Daniel Vass  
Director

**CERTIFICATE OF THE AGENTS**

Dated: September 25, 2017

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of British Columbia, Alberta and Ontario.

CANACCORD GENUITY CORP.

BEACON SECURITIES LIMITED

*(Signed) Frank Sullivan*

Frank Sullivan

Vice President, Sponsorship, Investment Banking

*(Signed) Mario Maruzzo*

Mario Maruzzo

Managing Director, Investment Banking