SUNNIVA INC.

Condensed Interim Consolidated Financial Statements

(Unaudited)

(Expressed in thousands of Canadian dollars)

For the three and nine months ended September 30, 2017 and 2016

SUNNIVA INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited)

As at September 30, 2017 and December 31, 2016

In thousands of Canadian dollars

	Notes:	September 30, 2017	December 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents		$ 714	$ 9,613
Accounts receivable		2,883	33
Inventory		133	-
Assets held for sale	4	8,764	-
Loan receivable	3	-	100
Prepaid expenses and deposits		684	47
Total current assets		13,178	9,793
Non-current assets			
Deposits on leases and properties		369	273
Property, plant and equipment	4	599	2,031
Intangible assets	9	31,788	13,566
Goodwill	5,6	12,952	-
Other		25	-
Total non-current assets		45,733	15,870
Total assets		$ 58,911	$ 25,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 3,326	$ 783
Deferred revenue	10	2,627	-
Secured promissory notes	11	17,207	9,333
Warrant liability	12	2,077	764
Provisions		258	202
Loans from shareholders		-	336
Total current liabilities		25,495	11,418
Long term liabilities			
Deferred income taxes		3,800	-
Total long term liabilities		3,800	-
Total liabilities		29,295	11,418
Shareholders' equity			
Share capital	13	48,225	23,815
Special warrants		6,035	-
Share subscriptions		-	84
Share based payments		3,311	-
Accumulated other comprehensive loss		(62)	(33)
Contributed surplus		774	415
Deficit		(28,667)	(10,036)
Total shareholders' equity		29,616	14,425
Total liabilities and shareholders' equity		$ 58,911	$ 25,663

Going concern (Note 2A) Commitments and contingencies (Note 17) Subsequent Events (Note 18)

Approved on behalf of the Board of Directors:

(signed) — Leith Pedersen

(signed) — Norm Mayr

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 nine months ended September 30, 2017 and 2016

In thousands of Canadian dollars, except as otherwise noted	Notes	Three months ended Sept 30, 2017	Three months ended Sept 30, 2016	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
REVENUE		$ 4,562	$ -	$ 10,215	$ -
COST OF GOODS SOLD		2,834	-	6,036	-
		1,728	-	4,179	-
EXPENSES					
Selling, general and administrative		8,400	817	13,121	2,741
Amortization and depreciation	4,9	1,013		2,538	
Research and development		-	-	-	689
Costs associated with terminated acquisition	14	-	-	-	1,878
		9,413	817	15,659	5,308
Loss before other expenses and taxes		7,685	817	11,480	5,308
Other expenses					
Loss (gain) due to fair value increase in secured promissory notes and warrant liability	11,12	(251)	-	8,675	-
Foreign exchange loss (gain)		(459)	85	(692)	169
Loss before taxes		6,975	902	19,463	5,477
Taxes					
Deferred tax recovery		(366)	-	(832)	-
Net loss attributable to the common shareholders		6,609	902	18,631	5,477
Other comprehensive loss:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange loss (gain) on translation of foreign operations		31	(2)	29	-
Total comprehensive loss for the period		$ 6,640	$ 900	$ 18,660	$ 5,477
Loss per share	13(f)				
Weighted average number of shares outstanding					
Basic and diluted		26,941,223	14,080,160	25,101,369	17,910,049
Basic and diluted loss per share (dollars)		$ 0.25	$ 0.06	$ 0.74	$ 0.31

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 nine months ended September 30, 2017 and 2016

In thousands of Canadian dollars, except as otherwise noted	**Note**	**Number of shares**	**Share capital**	**Share subscriptions**	**Contributed surplus**	**Share based payments**	**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	13(b)	1,532,442	5,756	-	-	-	-	-	-	5,756
Common shares issued in Natural Health Services Ltd. acquisition	13(b)	5,584,371	18,750	-	-	-	-	-	-	18,750
Special warrants issued	13(c)	-	-	-	-	-	6,640	-	-	6,640
Share subscriptions settled		24,568	84	(84)	-	-	-	-	-	-
Shareholder loan converted to shares	13(b)	114,325	333	-	-	-	-	-	-	333
Share based payments	13(e)	-	-	-	-	3,311	-	-	-	3,311
Finder's warrants issued in share offerings	13(d)	-	(344)	-	359	-	(15)	-	-	-
Unrealized foreign exchange gain on translation of foreign operations		-	-	-	-	-	-	(29)	-	(29)
Share issuance costs		-	(169)	-	-	-	(590)	-	-	(759)
Loss for the period		-	-	-	-	-	-	-	(18,631)	(18,631)
Balance at September 30, 2017		25,528,665	48,225	-	774	3,311	6,035	(62)	(28,667)	29,616

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 nine months ended September 30, 2017 and 2016

In thousands of Canadian dollars, except as otherwise noted

	Note	Number of shares	Share capital	Share subscriptions	Contributed surplus	Accumulated other comprehensive gain (loss)	Deficit	Total
			$	$	$	$	$	$
Balance at December 31, 2015		10,981,600	2,294	100	-	-	(3,149)	(755)
Common shares issued in private placements		1,310,049	2,862	-	-	-	-	2,862
Share subscriptions settled		80,000	100	(100)	-	-	-	-
Unrealized foreign exchange gain on translation of foreign operations		-	-	-	-	-	-	-
Share issuance costs		-	(806)	-	806	-	-	-
Loss for the period		-	-	-	-	-	(5,477)	(5,477)
Balance at September 30, 2016		12,371,649	4,450	-	806	-	(8,626)	(3,370)

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 nine months ended September 30, 2017 and 2016

In thousands of Canadian dollars

	Note	Nine Months ended Sept 30, 2017	Nine Months ended Sept 30, 2016
Cash provided by (used in) operating activities			
Net loss attributable to the common shareholders for the period		$ (18,631)	$ (5,477)
Adjustments for:			
Amortization and depreciation	4, 9	2,538	-
Fair value increase in secured promissory notes and warrant liability	11,12	8,675	-
Share based payments		3,311	-
Deferred tax recovery		(832)	-
Provision for onerous lease		56	-
Unrealized foreign exchange gain (loss)		(723)	2
Cashed used in operating activities before changes in non-cash operating assets and liabilities		(5,606)	(5,475)
Change in amounts receivable		(1,545)	61
Change in loan receivable		100	(100)
Change in inventory		90	-
Change in prepaid expenses		(512)	(69)
Change in accounts payable and accrued liabilities		824	396
Change in warranty liability		-	810
Change in deferred revenue		2,572	-
Net cash used in operating activities		(4,077)	(4,377)
Cash provided by (used in) financing activities			
Loans from shareholders		-	1,816
Repayment of loans from shareholders		(6,520)	-
Net proceeds from issuance of warrants		6,035	-
Net proceeds from issuance of share capital	13	5,935	2,980
Net cash provided by financing activities		5,450	4,796
Cash used in investing activities			
Deposits on properties and leases		(89)	(171)
Purchase of licenses		(567)	
Purchase of property, plant, and equipment	4	(7,168)	(50)
Acquisitions	5, 6	(2,454)	-
Net cash used in investing activities		(10,278)	(221)
Effect of foreign exchange on cash and cash equivalents		6	-
Increase (decrease) in cash		(8,899)	198
Cash and cash equivalents, beginning of period		9,613	41
Cash ,and cash equivalents end of period		$ 714	$ 239

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

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 nine months ended September 30, 2017").

These condensed Interim consolidated financial statements for the three and nine months ended September 30, 2017 were authorized for issuance by the Board of Directors on November 27, 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 interim financial statements have been prepared on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and as at September 30, 2017 has not generated sufficient revenue to finance its operations. The Company has an accumulated deficit of $28,282 as at September 30, 2017 (December 31, 2016 - $10,036) and incurred a net loss attributable to the common shareholders of $18,246 for the nine months ended September 30, 2017 (2016 - $5,477).

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, dispose of its 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 finance 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 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.

C) INTANGIBLE ASSETS

At the time of the business combination of Natural Health Services the software was recorded at its fair value. The software is measured at its fair value less accumulated amortization and accumulated impairment losses. The software is amortized over 5 years.

D) BASIS OF CONSOLIDATION:

These Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The list below sets out the principal subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated upon the preparation of these Interim 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
1964433 Alberta Ltd.	CAD	Canada
Full Scale Distributors, LLC ("FSD")	USD	Florida, USA
Sunniva Full Scale Distributors Corp	USD	California, USA
Sun CA Holdings, Inc.	USD	California, USA
A1 Perez, LLC ("Perez")	USD	Delaware, USA
Sunny People, LLC	USD	California, USA

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

3. LOAN RECEIVABLE

As at September 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.

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Construction in progress	Equipment	Total
Costs:				
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	5,089	1,693	386	7,168
Transferred to assets held for sale	(6,874)	(1,890)	-	(8,764)
Balance, September 30, 2017	$ -	$ -	$ 660	$ 660

	Land	Construction in progress	Equipment	Total
Accumulated Depreciation:				
Balance, January 1, 2016	$ -	$ -	$ -	$ -
Additions	-	-	-	-
Balance, December 31, 2016	-	-	-	-
Additions	-	-	61	61
Balance, September 30, 2017	$ -	$ -	$ 61	$ 61
Net book value				
September 30, 2017	$ -	$ -	$ 599	$ 599
December 31, 2016	$ 1,785	$ 197	$ 49	$ 2,031

During the nine months ended September 30, 2017, included in corporate expenses was depreciation of $61 (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 USD carrying amount.

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

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.

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 were repaid on August 8, 2017.

The acquisition has been accounted for as a business combination, using the acquisition method. The purchase consideration has been allocated based on the Company's estimated fair value of the identifiable assets acquired and the liabilities assumed. The amounts are provisional in nature and may be subject to retrospective adjustment to reflect new information obtained about facts and circumstances that existed as of the as acquisition date. Retrospective adjustments would be limited to the reclassifications of assets on the balance sheet. The allocation of the consideration is as follows:

	Amount
Net assets acquired	$ 15,941
Goodwill	6,559
Total purchase price	$ 22,500

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 9")	19,575
Goodwill	6,559
Accounts payable	(972)
Deferred revenue	(55)
Deferred income taxes	(4,632)
Leasehold allowance	(20)
Net assets acquired	$ 22,500

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

5. Acquisition of Natural Health Services Ltd. (continued)

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	$ 3,750

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.

The revenue and operating income (loss) included in the condensed interim consolidated statement of loss since February 8, 2017 is $7,400 and $(2,881), respectively. Had the acquisition occurred on January 1, 2017, the condensed interim consolidated statement of loss for the nine months ended September 30, 2017 would have shown revenue and operating income (loss) of $8,771 and $(615) 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 September 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 11”). 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 such conversion not to be unreasonably withheld. The note is secured by the membership interests.

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

6. Acquisition of Full Scale Distributors, LLC (continued)

The acquisition has been accounted for as a business combination, using the acquisition method. The purchase consideration has been allocated based on the Company's estimate of fair value of the identifiable assets acquired and the liabilities assumed. The amounts are provisional in nature and may be subject to retrospective adjustment to reflect new information obtained about facts and circumstances that existed as of the acquisition date. Retrospective adjustments would be limited to the reclassifications of assets on the balance sheet. The allocation of consideration is as follows:

	Amount
Net assets acquired	$ 144
Goodwill	6,393
Total purchase price	$ 6,537

Fair value of the net assets acquired included the following:

	Amount
Cash	$ 45
Accounts receivable	637
Inventory	159
Other	29
Goodwill	6,393
Accounts payable	(497)
Deposits - customer	(229)
Net assets acquired	$ 6,537

Net cash outflow on acquisition of FSD is as follows:

	Amount
Cash consideration – on closing	$ 1,961

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 $2,815 and $(275), respectively. Had the acquisition occurred on January 1, 2017, the condensed interim consolidated statement of loss for the nine months ended September 30, 2017 would have shown revenue and operating income of $3,520 and $(239) respectively. These pro-forma amounts are estimated based on the operation of the acquired business prior the business combination by the Company.

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

6. Acquisition of Full Scale Distributors, LLC (continued)

As the accounting for the acquisition was incomplete as at September 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.

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 A1 Perez, LLC ("Perez")

On August 17, 2017, the Company entered into a purchase agreement with the members of A1 Perez, LLC ("Perez") pursuant to which the Company acquired all of the outstanding membership interests of Perez. The acquisition closed on August 18, 2017. The purchase price was $1,258 (US$1,000) consisting of $566 of cash consideration (US$450) and $692 (US$550) in secured promissory notes (see "note 11"). Perez's only has an intangible asset of which the purchase price of $1,258 has been allocated to it.

As the accounting for the acquisition is incomplete as at September 30, 2017, the Company has reported a provisional amount for the item for which the accounting is incomplete. This provisional

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

7. Acquisition of A1 Perez, LLC ("Perez") (continued)

amount 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 amount recognized at that date.

8. 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 (see "note 11"). 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.

9. INTANGIBLE ASSETS

	Licenses	Software	Total
Costs:			
Balance, January 1, 2016	$ -	$ -	$ -
Additions (note 8)	13,599	-	13,599
Foreign exchange adjustment	(33)	-	(33)
Balance, December 31, 2016	13,566	-	13,566
Acquisition of NHS (note 5)	-	19,575	19,575
Additions (note 7)	1,124	-	1,124
Balance, September 30, 2017	$ 14,690	$ 19,575	$ 34,265

	Licenses	Software	Total
Accumulated amortization:			
Balance, January 1, 2016	$ -	$ -	$ -
Amortization	-	-	-
Balance, December 31, 2016	-	-	-
Amortization	-	2,477	2,477
Balance, September 30, 2017	$ -	$ 2,477	$ 2,477

Net Book Value:			
September 30, 2017	$ 14,690	$ 17,098	$ 31,788
December 31, 2016	$ 13,566	$ -	$ 13,566

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

9. INTANGIBLE ASSETS (continued)

The Company performs impairment testing at least annually on December 31 and whenever impairment indicators are identified for its intangible assets and goodwill. As at September 30, 2017 no impairment indicators were identified. For the nine month period ended September 30, 2017 included in selling, general, and administrative was amortization of $2,477 (2016 $nil) related to the amortization of the software.

10. 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 recognizes the amounts billed in revenue over a 12 month period.

	Amount
Balance, January 1, 2017	$ -
Acquired on NHS acquisition (see "Note 5")	55
Invoiced amounts	4,360
Revenue recognized during the period	(1,788)
Balance, September 30, 2017	$ 2,627

11. SECURED PROMISSORY NOTES

On August 17, 2017, the Company issued secured promissory notes in an aggregate principal amount of $692 (US$550) relating A1 Perez, LLC ("Perez") acquisition. The notes are secured against the membership interests. These notes mature on the earlier of (i) December 1, 2017, (ii) upon payment of at least US$550,000 to the Company by Graceland Industries, Inc., (iii) within 10 days after the receipt is issued by the British Columbia Securities Commission for Sunniva's final prospectus. These notes bear interest at a rate of 0.50% per annum.

On February 8, 2017, the Company issued secured promissory notes in an aggregate principal amount of $2,250 relating to the NHS acquisition. The promissory notes were repaid on August 8, 2017.

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 accrues interest at a rate of 0.5% per annum. During the nine month period ended September 30, 2017 the Company repaid $3,934 ($3,000 USD). The Notes were repaid on October 23, 2017.

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

11. SECURED PROMISSORY NOTES (continued)

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 (see "Note 18").

On February 10, 2017, the Company issued a secured convertible promissory note (the "FSD note") in an aggregate principal amount of $4,368 (US$3,500) relating to the FSD acquisition. The FSD note matures on December 31, 2017 and accrues interest at a rate of 0.74% 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"). 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 30 trading days at an average price equal to or in excess of US$2.55 per common share.

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 face value of FSD notes is $4,576 ($3,500USD). The weighted average grant date fair value of the FSD notes was determined to be $1.00 per share. As at September 30, 2017, the fair value of the FSD note was determined to be $3.46. The FSD note has a fair value of $3,382 at that date.

The face value of Notes is $4,992 ($4,000USD). The weighted average grant date fair value of the Notes was determined to be $1.00 per share. As at September 30, 2017, the fair value of the Notes was determined to be $3.51. The Notes had a fair value of $3,857.

The fair value of these Notes and the FSD note was determined on the date of the grant and at September 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 1years;
- expected volatility of 75%; and
- expected dividends of $Nil.

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

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

11. SECURED PROMISSORY NOTES (continued)

	Amount
Balance, at January 1, 2017	$ 9,333
Repayment of promissory notes	(3,934)
Issuance of promissory notes for Perez acquisition (see "Note 7")	692
Issuance of promissory notes for NHS acquisition (see "Note 5")	2,250
Repayment of promissory notes for NHS acquisition	(2,250)
Issuance of promissory note for FSD acquisition (see "Note 6")	4,576
Valuation adjustment for FSD note	3,382
Valuation adjustment for the Notes	3,857
Foreign exchange adjustment	(699)
Balance, as at September 30, 2017	$ 17,207

12. WARRANT LIABILITY

As at September 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 and are redeemable at the option of the holder:

Issue Date	Number	Exercise Price	Expiry Date
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
	500,000		

As at September 30, 2017 the fair value of the warrants is $3.98 per warrant. The warrants have a fair value of $2,077. The fair value of these warrants was determined on the date of the grant and September 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.

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

12. WARRANT LIABILITY (continued)

	Amount
Balance, January 1, 2017	$ 764
Valuation adjustment	1,436
Foreign exchange adjustment	(123)
Balance, September 30, 2017	$2,077

13. 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	Conversion shares subscription	1,960	$3.38 (US$2.55)	6
February 07, 2017	Conversion share subscription	3,000	$3.40	10
February 08, 2017	Acquisition of Natural Health Services Ltd.	5,584,371	$3.36 (US$2.55)	18,750
June 17, 2017	Conversion shares subscription	19,608	$3.44 (US$2.55)	68
June 22, 2017	Conversion of shareholder loans	114,325	$2.91	333
September 19, 2017	Private placement	183,672	$6.75	1,240
	Share issuance costs and finders warrant			(513)
September 30, 2017	Balance	25,528,665		$ 48,225

(c) Special Warrants

As at September 30, 2017, the Company received gross proceeds of $6,640 (net proceeds of $6,035) for the issuance of 983,753 warrants. Each warrant is exercisable into 1.10 common shares of the Company upon the receipt of a prospectus filing (1,082,128 common shares).

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

13. SHARE CAPITAL (continued)

(d) Finders' Warrants

During the nine months ended September 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
December 20, 2016	38,941	$3.40	December 20, 2017
December 28, 2016	289,298	$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 27, 2017	51,683	$6.75	June 27, 2018
June 27, 2017	11,112	$6.75	June 27, 2018
August 9, 2017	3,783	$6.75	August 9, 2018
September 19, 2017	4,130	$6.75	September 19, 2018
	517,322		

The weighted average grant date fair value of the finder's warrants was determined to be $2.00 per warrant for a total of $359. 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) Share option plan:

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 15% of the issued and outstanding common shares of the Company. Options expire ten years from the grant date. Options issued vest one sixteenth every three months from the date of grant. There are 2,753,125 options that have not vested as at September 30, 2017.

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

13. SHARE CAPITAL (continued)

The Company recognized a share-based compensation expense of $3,311 included in selling, general and administrative expenses. The total fair value of the options granted during the period was $9,196.

A summary of the status of the options outstanding follows:

	Stock Options	Weighted Average Exercise Price
Balance, January 1, 2017	-	$ -
Granted	2,750,000	$ 3.40
Granted	370,000	$ 6.75
Balance, September 30, 2017	3,120,000	$ 3.80

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

- risk free interest rate of 0.55%;
- expected life of 10 years;
- expected volatility of 75%; and
- expected dividends of $Nil.

(f) Loss per share:

The calculation of loss per share is as follows:

Three months ended September 30, 2017			Three months ended September 30, 2016		
Loss	Weighted average number of common shares outstanding	Loss per share	Loss	Weighted average number of common shares outstanding	Loss per share
$ 6,609	26,941,223	$ 0.25	$902	14,080,160	$ 0.06

Nine months ended September 30, 2017			Nine months ended September 30, 2016		
Loss	Weighted average number of common shares outstanding	Loss per share	Loss	Weighted average number of common shares outstanding	Loss per share
$ 18,631	25,101,369	$ 0.74	$5,477	17,910,049	$ 0.31

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

14. 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 nine months ended September 30, 2016 the cash payments were $Nil and $1,878 respectively

15. RELATED PARTY TRANSACTIONS

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

(a) Compensation of key management personnel

Key management personnel compensation, including directors and officers, is as follows:

	Three months ended Sept 30, 2017	Three months ended Sept 30, 2016	Nine months ended Sept 30, 2017	Nine months ended Sept 30, 2016
Consulting fees, wages, director fees and share based payments	$ 2,480	$ 298	$ 3,169	$ 927

Amounts due to related parties is as follows as at September 30:

	Sept 30, 2017	December 31, 2016
Consulting fees, wages, director fees, and share based payments	$ 277	$ 27
Loans from shareholder	$ -	$ 336

(b) Lease Guarantee

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

(c) Other related party

During the nine months ended September 30, 2017 the Company paid a legal firm which is associated with a director $453. An investment partnership which is associated with a director invested $4,124 in the Company through the purchase of common shares. As at September 30, 2017 the Company owes the legal firm $129.

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

16. SEGMENTED INFORMATION

The Company has three operating segments, referred to as Patient Counselling, Merchandising and Corporate. The operating segments are reportable segments in accordance with IFRS 8 Operating Segments. For the nine months ended September 30, 2017 and 2016:

September 30, 2017	Patient Counselling	Merchandising	Corporate	Total
Revenue	$ 7,400	$ 2,815	$ -	$ 10,215
Cost of goods sold	3,469	2,567	-	6,036
	3,931	248	-	4,179
Expenses				
Selling, general and administration	3,274	523	9,324	13,121
Amortization and depreciation	2,538	-	-	2,538
Intercompany charges	1,000		(1,000)	-
Loss before other expenses and taxes	(2,881)	(275)	(8,324)	(11,480)
Property, plant and equipment expenditures	-	-	7,168	7,168
Goodwill	6,559	6,393	-	12,952
Intangibles	17,099	-	14,689	31,788
Total assets	27,296	6,958	24,657	58,911
Total liabilities	7,453	325	21,518	29,295

September 30, 2016	Patient Counselling	Merchandising	Corporate	Total
Revenue	$ -	$ -	$ -	$ -
Cost of goods sold	-	-	-	-
	-	-	-	-
Expenses				
Selling, general and administration	-	-	2,741	2,741
Research and development	-	-	689	689
Cost associated with terminated acquisition	-	-	1,878	1,878
Loss before other expenses and taxes	-	-	(5,308)	(5,308)
Property, plant and equipment expenditures	-	-	50	50
Goodwill	-	-	-	-
Intangibles	-	-	-	-
Total assets	-	-	1,711	1,711
Total liabilities	-	-	5,081	5,081

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

16. SEGMENTED INFORMATION (continued)

For the three months ended September 30, 2017 and 2016:

September 30, 2017	Patient Counselling	Merchandising	Corporate	Total
Revenue	$ 3,287	$ 1,275	$ -	$ 4,562
Cost of goods sold	1,453	1,381	-	2,834
	1,834	(106)	-	1,728
Expenses				
Selling, general and administration	973	73	7,353	8,400
Amortization and depreciation	1,013	-	-	1,013
Intercompany charges	1,000		(1,000)	-
Loss before other expenses and taxes	(1,152)	(179)	(6,353)	(7,685)

September 30, 2016	Patient Counselling	Merchandising	Corporate	Total
Revenue	$ -	$ -	$ -	$ -
Cost of goods sold	-	-	-	-
	-	-	-	-
Expenses				
Selling, general and administration	-	-	817	817
Research and development	-	-	-	-
Cost associated with terminated acquisition	-	-	-	-
Loss before other expenses and taxes	-	-	(817)	(817)

17. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments
The Company’s minimum rental payments required under its facility leases are as follows:

2017	$ 332
2018	1,471
2019	1,528
2020	1,461
Thereafter	3,324
	$ 8,116

17. 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.

18. SUBSEQUENT EVENTS

During October 2017 the Company commenced a non-brokered private placement of unsecured convertible debentures. The convertible debentures bear interest at 8% per annum, payable annually commencing on December 31, 2018 with a maturity date of December 31, 2020. The convertible debentures are convertible into common shares at the option of the holder at any time prior to maturity at a conversion price of $4.60 per common share**.** On November 3, 2017 the Company closed its first convertible debenture tranche for $2,950 and its second convertible debenture tranche on November 14, 2017 for $5,725.

On October 23, 2017 the Company completed a partial disposition of its Assets Held for Sale (see "Note 4") consisting primarily of the land held for sale for $5,171 USD to a company associated with a director. With the proceeds received the Company retired a portion of its Secured Promissory Notes' obligation for $4,000USD including a portion of interest earned (see "Note 11"). The Company has entered into an agreement to lease the land and the completed facility for $8,700 USD per year for an initial term 15-year term. The lease agreement is subject to the completion of the related party's financing and asset transfer arrangement.

On October 28, 2017, 897,500 Offering Special Warrants and 11,112 Corporate Finance Fee Special Warrants were deemed to be exercised in accordance with the Penalty Exercise Ratio and were converted into 987,250 Common Shares and 12,223 Common Shares, respectively.

On October 28, 2017, the Broker Special Warrants were deemed to be exercised and converted into 59,596 common shares.