SUNNIVA INC.

Consolidated Financial Statements

(In Canadian dollars)

For the years ended December 31, 2017 and December 31, 2016

Independent Auditors' Report

To the Shareholders of Sunniva Inc.

We have audited the accompanying consolidated financial statements of Sunniva Inc., which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of loss and comprehensive loss and cash flows for the year then ended, 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, and for such internal control as management determines is necessary to enable the preparation of 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 the auditors' 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, the auditor considers 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 audit 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 Inc. as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2A to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Sunniva Inc.'s ability to continue as a going concern.

Other Matter
The consolidated financial statements of Sunniva Inc. for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on June 19, 2017.

MNP LLP

Calgary, Alberta
April 30, 2018

Chartered Professional Accountants

MNP LLP

SUNNIVA INC.
Consolidated Statements of Financial Position
As at December 31, 2017
In thousands of Canadian dollars

	Notes:	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents		$ 11,424	$ 9,613
Accounts receivable	5	2,273	133
Inventory	6	433	-
Prepaid expenses and deposits		402	47
Total current assets		14,532	9,793
Non-current assets			
Deposits on leases and properties		382	273
Property, plant and equipment	7	16,340	2,031
Intangible assets	12	25,148	13,566
Goodwill	12	17,546	-
Total non-current assets		59,416	15,870
Total assets		$ 73,948	$ 25,663
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 5,621	$ 783
Deferred revenue	15	656	-
Secured promissory notes	13	9,262	9,333
Lease provisions	16	200	202
Loans from shareholders		-	336
Total current liabilities		15,739	10,654
Non-current liabilities			
Convertible debenture financing	14	9,495	-
Warrant liability	17(e)	2,098	764
Finance lease	7	11,120	-
Deferred income taxes	22	2,156	-
Total non-current liabilities		24,869	764
Total liabilities		40,608	11,418
Shareholders' equity			
Share capital	17(b)	53,502	23,815
Equity component of convertible debentures	14	1,806	-
Share subscriptions		-	84
Warrants	17(f)	2,048	-
Accumulated other comprehensive loss		(263)	(33)
Contributed surplus		4,755	415
Deficit		(28,508)	(10,036)
Total shareholders' equity		33,340	14,245
Total liabilities and shareholders' equity		$ 73,948	$ 25,663

Going concern (note 2A), Commitments and contingencies (note 25), Subsequent events (note 27)

Approved on behalf of the Board of Directors:

(Signed) "*Anthony Holler*" — Dr. Anthony Holler, Director

(Signed) "*Norm Mayr*" — Norm Mayr, Director

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

SUNNIVA INC.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2017 and December 31, 2016
In thousands of Canadian dollars, except share amounts

	Notes:		2017		2016
REVENUE		$	16,072	$	38
COST OF GOODS SOLD			9,389		12
GROSS MARGIN			6,683		26
EXPENSES					
Sales and marketing			889		167
Research and development			110		314
General and administrative			13,391		3,429
Acquisition costs			-		2,149
Share-based payments	17(g)		3,981		-
Amortization and depreciation	7, 12		2,526		-
			20,897		6,059
Loss from operations			(14,214)		(6,033)
Other expenses					
Fair value changes in derivative instruments	13, 17		6,321		(75)
Foreign exchange (gain) loss			(388)		44
Interest and other expenses			313		885
Loss before income taxes			(20,460)		(6,887)
Taxes					
Deferred tax recovery	22		(1,988)		-
Net loss			(18,472)		(6,887)
Other comprehensive loss:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange loss on translation of foreign operation			230		33
Comprehensive loss		$	(18,702)	$	(6,920)
Loss per share	17(h)				
Basic and diluted loss per share (dollars)		$	(0.74)	$	(0.41)
Weighted average number of shares outstanding					
Basic and diluted			25,128,623		16,782,306

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

SUNNIVA INC.
Consolidated Statements of Changes of Equity (Deficiency)
For the years ended December 31, 2017 and December 31, 2016
In thousands of Canadian dollars, except as otherwise noted

	Note	Number of shares	Share capital	Share subscriptions	Contributed surplus	Warrants	Special warrants	Equity component of convertible debentures	Accumulated other comprehensive loss	Deficit	Total
Balance at December 31, 2015		10,981,600	$ 2,294	$ 100	$ -	$ -	$ -	$ -	$ -	$ (3,149)	$ (755)
Common shares issued in private placements	17(b)	5,845,426	19,983	-	-	-	-	-	-	-	19,983
Common shares issued for acquisition	17(b)	7,870,000	9,838	-	-	-	-	-	-	-	9,838
Common shares issued to settle shareholder loans and debt		1,365,933	2,987	-	87	-	-	-	-	-	3,074
Warrants issued	17(e)	-	-	-	-	-	-	-	-	-	-
Share subscriptions settled	17(b)	80,000	100	(100)	-	-	-	-	-	-	-
Share subscriptions received		-	-	84	-	-	-	-	-	-	84
Common shares repurchased	17(b)	(7,870,000)	(9,838)	-	-	-	-	-	-	-	(9,838)
Share issuance costs		-	(1,221)	-	-	-	-	-	-	-	(1,221)
Finders' warrants issued in share offerings		-	(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
Common shares issued in private placements	17(b)	1,545,499	5,843	-	-	-	-	-	-	-	5,843
Common shares issued in Natural Health Services Ltd. acquisition	17(b)	5,584,371	18,750	-	-	-	-	-	-	-	18,750
Special warrants issued	17(c)	-	-	-	-	-	6,640	-	-	-	6,640
Special warrants converted into shares	17(c)	1,082,128	6,035	-	-	-	(6,035)	-	-	-	-
Equity component of convertible debentures	14	-	-	-	-	-	-	1,806	-	-	1,806
Share subscriptions settled	17(b)	24,568	84	(84)	-	-	-	-	-	-	-
Shareholder loan converted to shares	17(b)	114,325	333	-	-	-	-	-	-	-	333
Share based payments	17(g)	-	-	-	3,981	-	-	-	-	-	3,981
Warrants issued and revalued	17(f)	-	-	-	-	2,048	-	-	-	-	2,048
Finder's warrants issued in share offerings	17(d)	12,223	22	-	(22)	-	-	-	-	-	-
Unrealized foreign exchange gain on translation of foreign subsidiaries		-	-	-	-	-	-	-	(230)	-	(230)
Share issuance costs		-	(1,380)	-	381	-	(605)	-	-	-	(1,604)
Loss for the year		-	-	-	-	-	-	-	-	(18,472)	(18,472)
Balance at December 31, 2017		26,636,073	$ 53,502	$ -	$ 4,755	$ 2,048	$ -	$ 1,806	$ (263)	$ (28,508)	**$ 33,340**

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

SUNNIVA INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2017 and December 31, 2016
In thousands of Canadian dollars

Cash provided by (used in) operating activities	Notes:		2017		2016
Loss for the year		$	(18,472)	$	(6,887)
Adjustments to reconcile net loss to net cash utilized by operating activities:					
Accretion	14		127		831
Decrease in provisions			(2)		202
Fair value changes in derivative instruments	13, 17		6,321		9
Share-based payments	17(g)		3,981		-
Bad debt expense			45		-
Amortization and depreciation	7, 12		2,526		-
Deferred tax recovery	22		(1,988)		-
Net cash utilized by operating activities			(7,462)		(5,845)
Changes in non-cash operating assets and liabilities:					
Change in amounts receivable			(880)		(72)
Change in inventory			(210)		-
Change in prepaid expenses			(229)		1,118
Change in accounts payable and accrued liabilities			3,066		264
Change in deferred revenue			656		-
Net cash used in operating activities			(5,059)		(4,535)
Cash used in investing activities					
Deposits on properties and leases			(80)		(222)
Purchase of property, plant, and equipment	7		(11,395)		(2,031)
Cash paid for business acquisitions	8, 9		(2,780)		-
Cash paid for Intangibles acquired	8, 9, 10		(1,124)		(4,266)
Net cash used in investing activities			(15,379)		(6,519)
Cash provided by (used in) financing activities					
Net proceeds from shareholder loans			-		1,741
Proceeds on finance lease`	7		11,120		-
Net proceeds from issuance of share capital	17		4,841		18,762
Net repayment of promissory notes	13		(11,955)		-
Net proceeds from issuance of convertible debentures	14		11,978		-
Net proceeds from issuance of warrants	17		6,035		-
Share subscriptions received			-		84
Net cash provided by financing activities			22,019		20,587
Effect of foreign exchange on cash and cash equivalents			230		39
Increase in cash			1,811		9,572
Cash and cash equivalents, beginning of year			9,613		41
Cash and cash equivalents, end of year		$	11,424	$	9,613
Supplemental disclosure of non-cash investing and financing activities:					
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 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 Company's shares are listed on the Canadian Securities Exchange (the "Exchange") under the symbol "SNN" and on the OTCQX Market under the symbol "SNNVF". The Company is a vertically integrated medical cannabis company focused on cultivation, production and distribution of a broad range of therapeutic solutions at scale across Canada and California. The address of the Company's registered office is 1200-200 Burrard Street, Vancouver, British Columbia, Canada V7X 1T2. The Company operates in Canada and the United States.

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

2. BASIS OF PRESENTATION

A) GOING CONCERN

The Company is considered to be in the development stage and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its products offerings in the 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 December 31, 2017 has not generated sufficient revenue to fund operations. The Company has an accumulated deficit of $28,508 as at December 31, 2017 (2016 - $10,036) and incurred a net loss of $18,472 for the year ended December 31, 2017 (2016 - $6,887).

The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, to convert its debentures into shares or obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due. Management plans to continue its efforts to secure external financing through the issuance of equity and debt to finance the operations and capital expenditures of the Company; however, there can be no certainty that such funds will be available on a timely basis and 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, 2017, the Company closed a bought deal public offering for aggregate gross proceeds of $27,797. See note 27 (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") and interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized for issuance by the Board of Directors on April 30, 2018.

C) BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and shared based payments which were measured at fair value.

D) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency. The functional currency of the Company's US subsidiaries is the US dollar ("US").

E) 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

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

(i) Use of estimates and assumptions:

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

Significant estimates used in the preparation of these financial statements include, but are not limited to the following:

(a) Estimated useful lives and amortization of intangible assets

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

2. BASIS OF PRESENTATION (Continued)

E) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

(b) Warrants

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

(c) Fair value of financial instruments

Individual fair values are attributed to the different components of a financing transaction, notably convertible debt, promissory notes and warrants. The Company uses judgment in selecting the methods used to make certain assumptions and in performing the fair value calculations in order to determine (i) the values attributed to each component of a transaction at the time of their issuance; (ii) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (iii) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market. The assumptions regarding these instruments are disclosed in notes 13, 14 and 17(e).

(d) Business Combinations

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

(e) Goodwill impairment

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

2. BASIS OF PRESENTATION (Continued)

E) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS (Continued)

(f) Convertible instruments

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

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

(g) Share-based payments

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

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

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:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

A) BASIS OF CONSOLIDATION (Continued)

Subsidiary	Functional Currency	Jurisdiction of Incorporation
Sunniva Medical Inc.	CAD	British Columbia, Canada
Natural Health Services Ltd.	CAD	Alberta, Canada
1964433 Alberta Ltd.	CAD	Alberta, Canada
Sun Holdings Management, LLC	US	Delaware, USA
CP Logistics, LLC	US	North Carolina, USA
Full Scale Distributors, LLC	US	Florida, USA
Sunniva Full-Scale Distributors Corporation	US	California, USA
Sun CA Holdings, Inc.	US	California, USA
A1 Perez, LLC	US	Delaware, USA
Sunny People, LLC	US	California, 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.

The assets and liabilities of foreign operations are translated into CAD at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into CAD using average exchange rates. Exchange differences resulting from the translation of foreign operations are recognized in other comprehensive income and accumulated in equity.

C) 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.

D) INVENTORY

Inventory is valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of selling the final product. Cost is determined by the weighted average method and comprises direct purchase costs. Inventory is written down to its net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) 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.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets, as follows:

- Computer software and equipment - 3 years
- Production equipment - 2 - 4 years
- Furniture and fixtures - 5 years
- Building and improvements - 10 - 50 years

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognized in profit or loss.

F) BUSINESS COMBINATIONS

The Company assesses whether an acquisition should be accounted for as an asset acquisition or a business combination under IFRS 3. This assessment requires management to make judgments on whether the assets acquired and liabilities assumed constitute a business as defined in IFRS 3 and if the integrated set of activities, including inputs and processes acquired, is capable of being conducted and managed as a business and the Company obtains control of the business inputs and processes. The Company's acquisition of A1 Perez, LLC has been accounted for as an asset acquisition (note 10) and the acquisition of Natural Health Services Ltd. And Full-Scale Distributors, LLC were accounted for as a business combination (notes 8 and 9) respectively.

The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

G) INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated amortization and impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

The fair value of software acquired in a business combination are determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) INTANGIBLE ASSETS (Continued)

The fair value of trademarks acquired in a business combination is determined using the multi-period excess earnings method or the relief of royalty method, whereby the value of the brand is equal to the royalty savings from having ownership as opposed to licensing the brand.

The fair value of customer relationships is determined based on the with-and-without method under the income approach, whereby the value is equal to the present value of the difference in after-tax cash flows between assuming the relationships existed upon acquisition and assuming they did not exist upon acquisition.

Amortization is provided on a straight-line basis over their estimated useful lives, which do not exceed the contractual period, if any. Intangible assets that have indefinite useful lives are not subject to amortization and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. The estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. Intangible assets are measured at fair value at the time of acquisition and are amortized on a straight-line basis using the following periods: a) Customer relationships – 4 to 7 years; b) Non-compete agreement – 3 years; c) Software – 6 years; and d) Trademarks – 10 years.

H) GOODWILL

Goodwill represents the excess of the purchase price paid for the acquisition of an entity over the fair value of the net tangible and intangible assets acquired. Goodwill is allocated to the CGU or CGUs which are expected to benefit from the synergies of the combination.

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill impairment is determined by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) 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, nonfinancial assets that do not generate independent cash flows are grouped together into a 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 first 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 non-financial assets is assessed at each reporting date for any indications that the loss has decreased or no longer exists.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) FINANCIAL INSTRUMENTS (Continued)

(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 are stated at fair value with changes recognized through earnings.

K) 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.

L) 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 Statement of Financial Position and lease payments are charged to earnings as they are incurred on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

M) COMPOUND FINANCIAL INSTRUMENTS

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition. Interest and losses and gains relating to the financial liability are recognized in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognized on conversion.

N) SHARE CAPITAL

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares, common share purchase warrants, and stock options are recognized as a deduction from equity, net of any tax effects. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded in reserves over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value of the shares on the date of issue.

O) SHARE-BASED PAYMENTS

The Company has a stock option plan. Equity-settled share-based payments to employees are measured at the fair value of the stock options at the grant date and recognized in expense over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are transferred to deficit in the year of forfeiture or expiry. Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

P) 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. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

Q) 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.

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.

R) REVENUE RECOGNITION

Revenue is recognized at the fair value consideration received or receivable. Revenue from the sale of goods is recognized when the Company has transferred the significant risks and rewards of ownership to the buyer and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the Company has delivered the product to customers.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

R) REVENUE RECOGNITION (Continued)

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

The Company sells supplies and accessories and the sale of goods is recognized when the Company sells and delivers the product to its customers.

S) 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 expenditures and borrowing costs on qualifying assets. Other development costs are expensed in the period incurred.

T) SEGMENT REPORTING

A segment is a distinguishable component of the Company that is engaged either in providing related products (business segment) and that is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Company's business segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other investments and related revenue, loans and borrowings and related expenses, corporate assets (primarily the Company's headquarters) and head office expenses. Segment capital expenditure is the total cost incurred during the period to acquire property, and equipment and intangible assets, other than goodwill.

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

4. NEW STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

(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.

(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. ACCOUNTS RECEIVABLE

	2017	2016
Trade accounts receivable	$ 2,273	$ 33
Other receivables	-	100
Total accounts receivable	$ 2,273	$ 133

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

6. INVENTORY

Inventory consists of merchandise on hand as at December 31, 2017, in the amount of $433. Included in cost of sales for the year ended December 31, 2017 are inventory write-downs for obsolescence and inventory shrinkage in the amount of $37.

The cost of inventory recognized as an expense and included in cost of sales for the year ended December 31, 2017 amounted to $4,329.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Construction in progress	Finance Lease	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 8)	-	-	-	225	225
Additions	5,088	5,814	-	493	11,395
Sale and lease back (note 17(f))	(6,873)	(4,573)	11,446	-	-
Warrants issued in sale and lease back (note 17(f))	-	-	2,804	-	2,804
Balance, December 31, 2017	$ -	$ 1,438	$ 14,250	$ 767	$ 16,455

	Land	Construction in progress	Finance Lease	Equipment	Total
Accumulated Depreciation					
Balance, January 1, 2016	$ -	$ -	$ -	$ -	$ -
Additions	-	-	-	-	-
Balance, December 31, 2016	-	-	-	-	-
Additions	-	-	-	115	115
Balance, December 31, 2017	$ -	$ -	$ -	$ 115	$ 115
Net book value					
December 31, 2016	$ 1,785	$ 197	$ -	$ 49	$ 2,031
December 31, 2017	$ -	$ 1,438	$ 14,250	$ 652	$ 16,340

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

8. 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. (“NHS”) for $22,500. NHS provides quality patient care under the direction of physicians through access to medical cannabis in its 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, a 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 at the acquisition date of February 8, 2017. Subsequent to the date of acquisition, the Company reviewed the provisional purchase price allocation and determined that additional identifiable intangible assets under IAS 38 should be recognized. The Company finalized the purchase price allocation and has adjusted the values for intangible assets and goodwill in the current period.

Accordingly, the purchase price allocation has been retrospectively adjusted to reflect changes to the assets acquired and liabilities assumed at the acquisition date as follows:

	As previously reported	Adjustments	Final
Working capital acquired	$ 998	$ (225)	$ 773
Equipment	-	225	225
Software	19,575	(15,323)	4,252
Trademarks	-	1,483	1,483
Customer relationships	-	3,831	3,831
Deferred income tax	(4,632)	2,048	(2,584)
Goodwill	6,559	7,961	14,520
Total purchase price	$ 22,500	$ -	$ 22,500

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.

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

8. ACQUISITION OF NATURAL HEALTH SERVICES LTD. (Continued)

The revenue and operating income (loss) included in the Consolidated Statement of Loss since February 8, 2017 is $11,291 and ($1,637), respectively. Had the acquisition occurred on January 1, 2017, the Consolidated Statement of Loss for the year ended December 31, 2017 would have shown revenue and operating income (loss) of $12,489 and ($1,721) 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.

9. ACQUISITION OF FULL-SCALE DISTRIBUTORS, LLC

On February 10, 2017, the Company acquired 100% of the membership interests in Full-Scale Distributors, LLC ("FSD") 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 13). This note was originally due on December 31, 2017 and bears interest at a rate of 0.74% 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. On February 15, 2018, the Company repaid the FSD note partially in cash of $2,781 (US$2,225), plus accrued interest, and the remaining portion through the issuance of common shares at the Conversion Price.

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. Subsequent to the date of acquisition, the Company reviewed the provisional purchase price allocation and determined that additional identifiable intangible assets under IAS 38 should be recognized. The Company finalized the purchase price allocation and has adjusted the values for intangible assets and goodwill in the current period.

Accordingly, the purchase price allocation has been retrospectively adjusted to reflect changes to the assets acquired and liabilities assumed at the acquisition date as follows:

	As previously reported	Adjustments	Final
Working capital acquired	$ 144	$ -	$ 144
Customer relationships	-	1,700	1,700
Non-compete agreement	-	1,741	1,741
Contingent consideration	-	(198)	(198)
Goodwill	6,393	(3,243)	3,150
Total purchase price	$ 6,537	$ -	$ 6,537

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

9. ACQUISITION OF FULL-SCALE DISTRIBUTORS, LLC (Continued)

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 Consolidated Statement of Loss since February 10, 2017 is $4,781 and ($1,545), respectively. Had the acquisition occurred on January 1, 2017, the Consolidated Statement of Loss for the year ended December 31, 2017 would have shown revenue and operating income of $5,473 and ($1,491) 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.

The Company may be required to pay 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. The fair value of the contingent consideration was valued at $176 as at the date of acquisition, and valued at $57 as at December 31, 2017.

10. ACQUISITION OF A1 PEREZ, LLC

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 and has been accounted for as an asset acquisition. 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 13). The acquired assets consist of the following intangibles: a manufacturing license, a facility sub-lease agreement, and a tenant improvement conditional use permit.

11. ACQUISITION OF CP LOGISTICS, LLC

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 notes (see note 13). CPL’s assets included five licenses, which are included in intangible assets. The value of these licenses is inseparable as they are inter-related. The transaction has been accounted for as an asset acquisition.

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

12. INTANGIBLE ASSETS AND GOODWILL

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Costs:						
Balance, January 1, 2016	$ -	$ -	$ -	$ -	$ -	$ -
Acquisition of CPL (note 11)	13,599	-	-	-	-	13,599
Foreign exchange	(33)	-	-	-	-	(33)
Balance, December 31, 2016	13,566	-	-	-	-	13,566
Acquisition of NHS (note 8)	-	4,252	1,483	3,831	-	9,566
Acquisition of FSD (note 9)	-	-	-	1,741	1,700	3,441
Acquisition of Perez (note 10)	1,258	-	-	-	-	1,258
Licenses costs expensed	(134)	-	-	-	-	(134)
Foreign exchange	-	-	-	(70)	(69)	(139)
Balance, December 31, 2017	$ 14,690	$ 4,252	$ 1,483	$ 5,502	$ 1,631	$ 27,558

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Accumulated amortization:						
Balance, January 1, 2016	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	-	-	-	-	-	-
Balance, December 31, 2016	-	-	-	-	-	-
Amortization	-	650	136	1,104	520	2,410
Balance, December 31, 2017	$ -	$ 650	$ 136	$ 1,104	$ 520	$ 2,410

Net book value:

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
December 31, 2016	$ 13,566	$ -	$ -	$ -	$ -	$ 13,566
December 31, 2017	$ 14,690	$ 3,602	$ 1,347	$ 4,398	$ 1,111	$ 25,148

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

12. INTANGIBLE ASSETS (Continued)

The continuity of Goodwill for the year ended December 31, 2017 is as follows:

	Goodwill
Balance, December 31, 2016	-
Acquisition of NHS (note 8)	14,520
Acquisition of FSD (note 9)	3,150
Foreign exchange adjustment	(124)
Balance, December 31, 2017	$ 17,546

The Company performs goodwill impairment testing at least at each reporting period and whenever impairment indicators are identified. As at December 31, 2017, no impairment indicators were identified and management concluded that there was no goodwill impairment. The Company has identified 3 CGUs for purposes of performing its impairment analysis. The following are the key assumptions and judgments in making this assessment.

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 utilized a discount rate of 27% for NHS and 35% for FSD.

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.

Although there was no impairment loss as at December 31, 2017, the valuation of FSD was calculated to be relatively close to its carrying value. Management will continue to perform the goodwill impairment test whenever events or circumstances arise that may indicate an impairment may have occurred, and at least annually in the fourth quarter of each fiscal year.

13. SECURED CONVERTIBLE PROMISSORY NOTES

On December 15, 2016, the Company issued secured convertible promissory notes (the "CPL Notes") in an aggregate principal amount of $9,333 (US$7,000) relating to the CPL acquisition. The CPL Notes accrue interest at a rate of 0.5% per annum and 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, subject to adjustment in certain circumstances. The CPL Notes were repaid on October 23, 2017.

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.

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

13. SECURED CONVERTIBLE PROMISSORY NOTES (Continued)

On August 17, 2017, the Company issued secured promissory notes in an aggregate principal amount of $692 (US$550) relating to the Perez acquisition. The notes were secured against the membership interests and bore interest 0.50% per annum. These notes were repaid on October 23, 2017.

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 was repaid subsequent to year-end (note 27(b)).

The FSD note is a compound financial instrument. 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 the FSD note is $4,575 (US$3,500). As at December 31, 2017, the fair value of the FSD note was determined to be $4,872.

The fair value of the FSD note was determined on the date of the grant and at December 31, 2017 using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.55%;
- expected life of 1 year;
- expected volatility of 76%; and,
- expected dividends of $Nil.

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

The continuity of the secured convertible notes is as follows:

	Amount
Balance, January 1, 2016	$ -
Issuance of promissory notes for CPL acquisition (note 11)	9,333
Fair value adjustment	-
Balance, December 31, 2016	$ 9,333
Repayment of CPL Notes	(8,954)
Issuance of promissory note for FSD acquisition (note 9)	4,576
Valuation adjustment for FSD note	4,872
Issuance of promissory notes for NHS acquisition (note 8)	2,250
Repayment of promissory notes for NHS acquisition	(2,250)
Issuance of promissory notes for Perez acquisition (note 10)	686
Repayment of promissory notes for Perez acquisition	(686)
Foreign exchange adjustment	(565)
Balance, December 31, 2017	$ 9,262

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

14. CONVERTIBLE DEBENTURE FINANCING

	Amount
Balance, January 1, 2017	$ -
Issued	12,135
Equity portion	(2,632)
Accretion	127
Financing fees	(135)
Balance, December 31, 2017	$ 9,495

The liability component of the convertible debentures was valued using Company specific interest rates assuming no conversion feature exists. The effective interest rate was determined to be 17.5%. The debt component is accreted to its fair value over the term to maturity as a non-cash interest charge and the equity component is presented as a separate component of shareholders' equity.

In November and December 2017, the Company completed a private placement of unsecured convertible debentures in the aggregate principal amount of $12,135. The debentures bear interest at 8% per annum, payable annually and mature on December 31, 2020. The debentures are convertible into common shares of the Company at a price of $4.60 per share at the holder's option. The equity portion was determined to be $2,632, less a deferred tax recovery of $788. On closing, the Company paid finders fees of $173, of which $38 has been allocated to the equity portion.

As at December 31, 2017, none of the convertible debentures had been converted into common shares.

15. 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. As at December 31, 2017, there is a balance of $38 in deferred revenue from software.

Merchandise sales require a prepaid deposit before the product is shipped and the revenue is deferred until the product is delivered to the customer. There are $620 customer deposits at December 31, 2017.

16. LEASE PROVISIONS

	Onerous Lease	Contingent Consideration	Total
Balance, January 1, 2016	$ -	$ -	$ -
Provisions made during the year	202	-	202
Balance, December 31, 2016	202	-	202
Provisions made during the year	-	57	57
Amortization of provision	(59)	-	(59)
Balance, December 31, 2017	$ 143	$ 57	$ 200

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

The contingent consideration is related to the acquisition of FSD (note 9).

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

17. 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, 2015	Balance	10,981,600		$ 2,294
January 7, 2016	Shares for acquisition	7,870,000	$1.25	9,838
January 8, 2016	Share subscriptions settled	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
	Share issuance costs			(1,549)
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 2017	Private placement	40,000	$3.36 (US$2.55)	133
February 2017	Private placement	263,675	$3.40	897
February 2017	Share subscriptions settled	1,960	$3.38 (US$2.55)	6
February 2017	Share subscriptions settled	3,000	$3.40	10
February 2017	Acquisition of Natural Health Services Ltd.	5,584,371	$3.31 (US$2.55)	18,750
June 17, 2017	Share subscriptions settled	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
Q4 activity	Non-brokered private placement	13,057	$6.75	88
Q4 activity	Conversion of special warrants	1,082,128	$6.75	6,035
Q4 activity	Conversion of brokers warrants	12,223	$6.75	22
Q4 activity	Share issuance costs and finders warrant			(1,380)
December 31, 2017	Balance	26,636,073		$ 53,502

(c) Special Warrants

As at December 31, 2017, the Company received gross proceeds of $6,640 (net proceeds of $6,035) for the issuance of 983,753 warrants. The warrants were converted into common shares of the Company during the year at a rate of 1-to-1.1 (1,082,128 common shares).

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

17. SHARE CAPITAL (Continued)

(d) Finders' Warrants

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

Date	Number	Exercise Price	Expiry Date
December 20, 2016	38,941	$3.40	June 30, 2018
December 28, 2016	289,298	$3.40	June 30, 2018
February 7, 2017	18,375	$3.40	February 7, 2018
June 15, 2017	100,000	$6.75	June 15, 2018
June 26, 2017	62,795	$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
Exercised	(11,112)		
	506,210		

11,112 warrants were exercised during the year and included in share capital at a value of $22.

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 76%; and
- expected dividends of $Nil.

(e) Financing warrants

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

Issue Date	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		

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, 2017, none of the interim financing share purchase warrants had been exercised.

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

17. SHARE CAPITAL (Continued)

(e) Financing warrants (Continued)

As at December 31, 2017, the fair value of the warrants is $4.02 per warrant. The warrants have a fair value of $2,010. The fair value of these warrants was determined on the date of the grant and December 31, 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 76%; and
- expected dividends of $Nil.

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

	Amount
Balance, January 1, 2016	-
Issuance of financing warrants	804
Valuation adjustment	(40)
Balance, December 31, 2016	$ 764
Valuation adjustment	1,449
Foreign exchange adjustment	(115)
Balance, December 31, 2017	$2,098

(f) Warrants issued in sale and leaseback

On October 23, 2017, the Company issued the following warrants in conjunction with the sale and lease back of the land related to the production facility in Cathedral City, California. Each warrant is exercisable into one common share of the Company upon payment of the exercise price:

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

As at December 31, 2017 the fair value of the warrants is $2.39 per warrant. The warrants have a fair value of $2,804 and this cost has been included in the Finance Lease asset (note 7). The fair value of these warrants was determined on the date of the grant and December 31, 2017 using the Black-Scholes option pricing model with the following weighted average assumptions:

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

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

	Amount
Balance, December 31, 2016	$ -
Issuance	2,804
Deferred tax recovery	(756)
Balance, December 31, 2017	$ 2,048

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

17. SHARE CAPITAL (Continued)

(g) Share-based payments

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares, 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 2,709,375 options that have not vested as at December 31, 2017. A summary of the status of the options outstanding is as follows:

	Stock options	Weighted Average Exercise Price
Balance, December 31, 2016	-	$ -
Granted	3,695,000	4.26
Forfeited	(384,465)	3.40
Balance, December 31, 2017	3,310,535	$ 4.36

The following table summarizes the stock options that remain outstanding as at December 31, 2017:

Exercise Price	Options Outstanding	Expiry Date	Average Remaining Contract Life	Options Exercisable
$3.40	2,265,535	March 30, 2027	9.11	478,035
$3.40	100,000	April 1, 2019	1.28	100,000
$6.75	370,000	August 13, 2027	9.60	23,125
$6.75	400,000	October 13, 2027	9.82	-
$6.75	175,000	November 29, 2027	9.94	-
	3,310,535		9.31	601,160

The Company recognized a share-based compensation expense of $3,981 for the year ended December 31, 2017. The total fair value of the options granted during the period was $11,327.

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 0.92%;
- expected life of 10 years;
- expected volatility of 76%; and,
- expected dividends of $Nil.

Volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading history and volatility history. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate is based on Canada government bonds with a remaining term equal to the expected life of the options.

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

17. SHARE CAPITAL (Continued)

(h) Loss per share

The calculation of loss per share is as follows:

Year ended December 31, 2017			Year ended December 31, 2016		
Loss	Weighted average number of common shares outstanding	Loss per share	Loss	Weighted average number of common shares outstanding	Loss per share
$ 18,472	25,128,623	$ 0.74	$6,887	16,782,306	$ 0.41

18. CAPITAL RISK MANAGEMENT

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

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

The Company manages its capital structure and makes changes based on economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities. To manage the Company's capital requirements, the Company has in place a planning and budgeting process which helps determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company's officers are responsible for managing the Company's capital and do so through meetings and review of financial information. The Board of Directors is responsible for overseeing this process. As at December 31, 2017, the Company is not subject to externally imposed capital requirements.

19. 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, warrants 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, 2017 and December 31, 2016.

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, convertible debentures 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 and warrants are classified as fair value through profit and loss.

19. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

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
Warrants	Level 3

There were no transfers between the levels during the years ended December 31, 2017 nor December 31, 2016.

As at December 31, 2017 and 2016, the fair values of all financial instruments carried at amortized cost approximated their carrying value.

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

(b) Credit risk:

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

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

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

19. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

Trade and other receivables primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST"). The Company mitigates this risk by managing and monitoring the underlying business relationships. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but has limited risk as the majority of sales are transacted with credit cards.

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

	At December 31, 2017	At December 31, 2016
0 – 30 days	1,022	133
31 – 60 days	348	-
61 – 90 days	180	-
91 days and over	724	-
	$ 2,273	$ 133

(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 25, the Company has the following contractual obligations:

As at December 31, 2017	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	$ 5,621	$ 5,621	$ -	$ -
Secured promissory notes	9,262	9,262	-	-
Warrant liability	2,098	-	2,098	-
Convertible debenture financing	9,495	-	9,495	-
	$ 26,476	$ 14,883	$ 11,593	$ -

As at December 31, 2016	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	$ 783	$ 783	$ -	$ -
Secured promissory notes	9,333	9,333	-	-
Warrant liability	764	-	764	-
Convertible debenture financing	-	-	-	-
Loans from shareholders	336	336	-	-
	$ 11,216	$ 10,452	$ 764	$ -

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

19. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(d) Currency risk:

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

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

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

The Company has determined that an effect of a 10% increase or decrease US dollars against the Canadian dollar on financial assets and liabilities, as at December 31, 2017, including cash, accounts receivable and accounts payable, etc., would result in an increase or decrease of approximately $108 (2016 - $Nil) to the net loss and comprehensive loss for the year ended December 31, 2017.

(e) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's financial debt have fixed rates of interest and therefore expose the Company to a limited interest rate fair value risk.

(f) Regulatory risk

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

20. CORPORATE EXPENSES

	Year ended December 31, 2017	Year ended December 31, 2016
Accounting and legal	$ 2,256	$ 221
Wages and consulting fees	8,376	1,962
Insurance	75	13
Licensing fees	76	143
Office and miscellaneous	673	57
Travel	650	228
Rent and utilities	1,201	805
Loss on disposal of assets	84	-
	$ 13,391	$ 3,429

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

21. FINANCE EXPENSES

	Year ended December 31, 2017	Year ended December 31, 2016
Accretion	$ 127	$ 831
Interest and bank charges	186	54
Change in fair value of warrants	6,321	(75)
Foreign exchange	(388)	44
	$ 6,246	$ 854

22. 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, 2017	Year ended December 31, 2016
Loss before income taxes	$ (20,460)	$ (6,887)
Canadian statutory rate	27%	26%
Expected income tax recovery	(5,524)	(1,791)
Share-based payments	1,078	216
Share issuance costs	(268)	(589)
Foreign tax rate differential	(21)	-
Other	131	
Change in unrecognized deferred tax assets	2,616	2,164
Income tax recovery	$ (1,988)	$ -

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

22. INCOME TAXES (Continued)

(c) Deferred income tax assets and liabilities

The analysis of deferred income tax liabilities and deferred income tax assets is as follows:

	Year ended December 31, 2017	Year ended December 31, 2016
Deferred income tax liabilities		
Capital assets	$ 829	$ -
Software	972	-
Trademarks	363	-
Customer relationships	717	-
Convertible debentures	730	-
	$ 3,611	$ -
Deferred income tax assets		
Non-capital losses	(4,120)	(2,438)
Share issue costs	(548)	-
Non-compete	(181)	-
Convertible notes	(1,243)	-
Warrant liability	(566)	-
Other	(43)	(527)
	(6,701)	(2,958)
Net deferred tax asset	(3,090)	(2,958)
Unrecognized deferred income tax assets	6,725	2,965
Deferred tax liability	$ (2,156)	$ -

(d) Loss carry forwards

The Company has tax losses carried forward of $14,248 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
2037	$4,871

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

23. 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, 2017	Year ended December 31, 2017
Wages and consulting fees	$ 1,594	$ 747
Share-based payments	2,329	-
	$ 3,923	$ 747

Amounts due to related parties is as follows as at:

	Year ended December 31, 2017	Year ended December 31, 2017
Consulting fees and wages	$ 127	$ 27
Loans from shareholders	$ -	$ 336

(b) Other benefits:

	Year ended December 31, 2017	Year ended December 31, 2017
Termination payments	$ 250	$ 131

During 2016, the Company's CFO 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.

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

23. RELATED PARTY TRANSACTIONS (Continued)

(d) Other related party

During the year ended December 31, 2017, the Company paid $559 to a legal firm which is associated with a director. As at December 31, 2017, the Company owes the legal firm $69.

An investment partnership which is associated with a director invested $4,124 in the Company through the purchase of common shares.

In October 2017, the Company entered into an agreement with a property development company, which is associated with a director, to construct and subsequently lease the CPL Greenhouse Facility in Cathedral City, California. The total estimated cost of the facility is US$54,000. As part of this arrangement, the director was issued 1,091,259 warrants convertible at $4.60 per common share (note 17(f)).

24. 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.

December 31, 2017	Patient Counselling	Merchandising	Corporate	Total
Revenue	$11,291	$4,781	$-	$16,072
Cost of goods sold	4,783	4,606	-	9,389
	6,508	175	-	6,683
Expenses				
Sales and marketing	376	159	354	889
Research and development	-	-	110	110
General and administrative	5,899	806	6,686	13,391
Share based payments	-	-	3,981	3,981
Amortization and depreciation	1,765	755	6	2,526
Intercompany charges	105	-	(105)	-
(Loss) before other expenses and taxes	(1,637)	(1,545)	(11,032)	(14,214)
Property, plant and equipment	509	-	15,831	16,340
Goodwill	14,520	3,026	-	17,546
Intangibles	7,903	2,555	14,690	25,148
Total assets	25,156	7,104	41,688	73,948
Total liabilities	3,865	2,313	34,430	40,608

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

25. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Company is committed under a lease agreement with respect to an office premise located in Calgary, Alberta expiring October 31, 2027, and lease agreements with respect to clinics located across Canada expiring between September 30, 2019 and October 31, 2022.

The Company leases production facilities in California with two leases which commenced in 2016 and a facility in Cathedral City, California commencing in 2018. The terms of the first two leases are five years with monthly payments of rent expiring on September 30, 2021 and December 31, 2021 respectively. The lease in Cathedral City has a term of 15 years with three options to extend by 5 years each.

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

	Cathedral City	Others	Total
2018	$ 5,780	$ 1,471	$ 7,251
2019	11,666	1,519	13,185
2020	11,666	1,422	13,088
2021	11,666	869	12,535
Thereafter	152,750	2,425	155,175
	$ 193,528	$ 7,706	$ 201,234

(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.

26. COSTS ASSOCIATED WITH TERMINATION 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 year ended December 31, 2017 the cash payments were $Nil.

27. SUBSEQUENT EVENTS

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

(a) On January 10, 2018, the Company began trading its common shares on the Exchange under the symbol "SNN". On February 14, 2018 the Company began trading its common shares on the OTCQX Market, operated by OTC Markets Group, under the symbol "SNNVF".

27. SUBSEQUENT EVENTS (Continued)

(b) On February 15, 2018, the Company repaid the FSD note in partially cash of $2,781 (US$2,225), plus accrued interest, and the remaining portion through the issuance of common shares at the Conversion Price.

(c) On March 27, 2018, the Company completed a bought deal public offering for aggregate gross proceeds of $27,797. A total of 2,850,900 units ("Units") and 50,000 Warrants (as defined below) were sold at a price of $9.75 per Unit and $0.02 per Warrant.

Each Unit consists of one common share in the capital of the Company and one-half of one common share purchase warrant (each whole warrant, a "Warrant") of the Company. Each whole Warrant shall entitle the holder thereof to acquire one common share at an exercise price per share of $12.50 for a period of 24 months.