

Sunniva Inc. Announces Q2 2018 Financial Results

VANCOUVER, Aug. 29, 2018 /CNW/ - Sunniva Inc. ("**Sunniva**" or the "**Company**") (CSE:SNN) (OTCQX:SNNVF), a North American provider of cannabis products and services, today released its financial results and management's discussion and analysis for the three and six months ended June 30, 2018. All figures are reported in Canadian dollars (\$) unless otherwise stated. Sunniva's financial statements are prepared in accordance with International Financial Reporting Standards.

Message from the CEO

"We made great progress in Q2 2018 towards our goal of becoming a vertically integrated cannabis company in the U.S. In California, construction progressed at our phase one 325,000 square foot state-of-the-art Sunniva California Campus with completion targeted by the end of this year and first harvest expected in Q1 2019," said Dr. Anthony Holler, CEO, Sunniva. "Our extraction facility began generating revenue this quarter. We continue to secure new contracts and are excited about the future revenue opportunities in this and other vertical channels that maximize the synergies with our Full-Scale Distributors device business."

"Our focus in California and the U.S. is to leverage our cultivation and extraction facilities and aggressively pursue upstream distribution and retail opportunities to achieve full vertical integration from seed to sale, which will include a focus on launching Sunniva branded product lines in various product categories including flower, extracted products, vaporizers and beverages."

Dr. Holler continued, "In Canada, we received our Confirmation of Readiness letter for a license from Health Canada and broke ground and commenced construction on the 759,000 square foot Sunniva Canada Campus in Okanagan Falls, British Columbia. Our Natural Health Services' clinics reported another strong quarter of revenue generation and together with the future production from the Sunniva Canada Campus, provide a solid foundation for future Canadian growth opportunities."

Financial Highlights – Three and Six Months Ended June 30, 2018

Consolidated Financial Highlights expressed in 000's of CDN\$, except per share amounts

	Three Months Ended June 30,		
	2018	2017	Change
Revenue	4,469	3,280	1,189
Cost of Goods Sold	1,681	2,044	(363)
Gross Margin	2,788	1,236	1,552
Selling, General and Administrative	4,954	3,026	1,928
Share-based Payments	1,936	-	1,936
Amortization Expense	719	691	28
Loss from Operations	(4,821)	(2,481)	(2,340)
Net Loss	(4,910)	(10,744)	5,834
Basic Loss Per Share	(\$0.16)	(\$0.42)	\$0.26
Weighted Average Number of Shares	31,666,028	25,638,492	6,027,536

	Six Months Ended June 30,		
	2018	2017	Change
Revenue	9,633	5,654	3,979
Cost of Goods Sold	4,752	3,203	1,549
Gross Margin	4,881	2,451	2,430
Selling, General and Administrative	10,512	4,741	5,771
Share-based Payments	4,105	-	4,105
Amortization Expense	1,420	1,132	288
Loss from Operations	(11,156)	(3,422)	(7,734)
Net Loss	(11,178)	(11,706)	528
Basic Loss Per Share	(\$0.38)	(\$0.48)	\$0.10
Weighted Average Number of Shares	29,544,426	24,170,053	5,374,373

Operating Highlights - Three Months Ended June 30, 2018

Key operating highlights for the Company for the period included:

- On May 29, 2018, the Company's wholly-owned subsidiary, Sunniva Medical Inc. ("SMI"), received the Confirmation of Readiness for a license under the *Access to Cannabis for Medical Purposes Regulations* ("ACMPR") from Health Canada. This represents acceptance of the Company's detailed application with the next step being an inspection upon site readiness in order to commence cultivation.
- On May 30, 2018, the Company's wholly-owned subsidiary, Natural Health Services Ltd. ("NHS"), had the grand opening of its seventh patient-centric clinic in Windsor, Ontario.
- The Company announced the closing of a 126-acre industrial zoned property for the Sunniva Canada Campus in Okanagan Falls, British Columbia for a purchase price of \$7.0 million. The transaction closed on June 15, 2018 for consideration of \$3.5 million in cash and the balance through a one-year vendor take back mortgage financing arrangement.
- In June 2018, the Company's wholly-owned subsidiary, CP Logistics, LLC ("CPL"), secured 12-month extraction services agreements with two leading California cannabis brands, Cali Gold and Farmacy Phactory, for the extraction facility in California that became operational in the quarter.

Results of Operations – Three Months Ended June 30, 2018

For the three and six months ended June 30, 2018, the Company generated \$4.5 million and \$9.6 million in revenue, respectively. NHS contributed \$3.2 million and \$5.8 million while the Company's wholly-owned subsidiary Full-Scale Distributors, LLC ("FSD") contributed \$1.3 million and \$3.8 million over these same periods. Net loss for the three and six months ended June 30, 2018 was \$4.9 million and \$11.2 million as compared to \$10.7 million and \$11.7 million during the three and six months ended June 30, 2017.

The key components contributing to the change in net loss from the three and six months ended June 30, 2018 compared to the prior comparative periods comprise the following:

- Revenue increased by \$1.2 million and \$4.0 million during the three and six months ended June 30, 2018. NHS revenue increased by \$0.7 million and \$1.7 million over these comparative periods due to an increase in the number of clinics and Licenced Producers ("LPs") under contract. FSD revenue increased by \$0.5 million and \$2.3 million over these comparative periods due to an increased customer base and strong first quarter 2018 results. The increase over the comparative six months ended June 30, 2017 is also due to the acquisitions of NHS and FSD midway through February 2017.
- Gross margin increased by \$1.6 million and \$2.4 million during the three and six months ended June 30, 2018 primarily due to the increase of LP revenue in NHS. LP revenue provides the highest margin of all the Company's revenue streams. On a percentage basis, gross margin increased from 38% and 43% in the three and six months ended June 30, 2017 to 62% and 51% in the three and six months ended June 30, 2018 due to the increase in LP revenue.
- Selling, general and administration expenses increased by \$2.0 million and \$5.9 million during the three and six months ended June 30, 2018. The increase is primarily due to an increase in operational spend with the Company's continued expansion, higher costs associated with being a publicly-listed company and increased advisory costs related to the development of the cultivation businesses in California and Canada. The most significant increase in costs relate to professional fees, personnel costs and rent. The increase over the comparative period is also due to the acquisitions of NHS and FSD occurring midway through the first quarter of fiscal 2017.
- Share-based payment expenses increased from \$nil in the three and six months ended June 30, 2017 to \$1.9 million and \$4.1 million in the three and six months ended June 30, 2018 with the introduction of the Company's stock option plan mid-way through fiscal 2017.
- The Company realized a non-cash gain of \$1.0 million on settlement of a secured convertible promissory note issued in connection with the acquisition of FSD in the first quarter of fiscal 2018.
- Fair value changes in derivative instruments due to the revaluation of secured convertible promissory notes and warrants decreased from an expense of \$8.9 million for the three and six months ended

June 30, 2017 to a gain of \$0.5 million and a loss of \$0.3 million for the three and six months ended June 30, 2018. This was due to a decrease in share price in the second quarter of fiscal 2018 and significant fair value changes in fiscal 2017 with the Company's private share value increasing throughout fiscal 2017.

- Amortization and depreciation expense increased by \$28,000 and \$0.3 million during the three and six months ended June 30, 2018 due to a higher cost base of the assets in fiscal 2018 and the intangible assets being acquired midway through the first quarter of fiscal 2017.

Recent Operating Developments Subsequent to June 30, 2018

For a comprehensive overview of Sunniva's recent developments, please refer to the Company's Management's Discussion and Analysis of the Financial Condition and Results of Operations for the three and six months ended June 30, 2018. Highlights include the following:

- CPL secured an additional 12-month extraction services agreement with Pure Applied Sciences for the extraction facility in California.
- Construction continues at the Sunniva California Campus. Phase one (50,000 kg per year) is expected to commence operations in Q4 2018, with the first harvest expected in Q1 2019. We continued our work on completion of our California licencing requirements for the facility.
- The Sunniva Canada Campus has commenced construction. Grading of the site is nearing completion and expected to be 100% complete by mid-September. Foundation work on Phase one has commenced and is approximately 40% complete.
- The Company's cash position is \$11.9 million as of the date hereof.

Copies of our interim financial statements for the three and six months ended June 30, 2018 and related management's discussion and analysis of financial results are available on SEDAR at www.sedar.com.

About Sunniva Inc.

Sunniva, through its subsidiaries, is a vertically integrated cannabis company operating in the world's two largest cannabis markets – Canada and California – where we are committed to delivering safe, high-quality products and services at scale and launching trusted Sunniva branded cannabis products across various product categories including flower, pre-rolls, extracted products, vaporization and beverages. Our vision is to become one of the lowest cost, highest quality vertically integrated cannabis producers in the markets we serve by building large scale purpose-built current cGMP designed greenhouses and expansion of retail locations, offering better quality assurance with cannabis products free from pesticides, providing better customer access to cannabis education and sourcing better therapeutic delivery devices. Sunniva's management and board of directors have a proven track record for creating significant shareholder value both in the healthcare and biotech industries.

Sunniva operates through its wholly owned subsidiaries:

Sunniva Medical Inc. ("SMI") – SMI is building the Sunniva Canada Campus, a 759,000 square feet of purpose-built greenhouse facilities located in British Columbia. The facility will produce pesticide free products and will convert trim to extracted products such as cannabis oil. The oil can be used for drug delivery formats such as capsules, dissolvable strips, vaporization cartridges, tinctures and creams. As the facility is not complete, revenue and costs are not known, therefore, profitability cannot be assured.

CP Logistics, LLC ("CPL") – Through CPL, Sunniva has commenced construction of the Sunniva California Campus, state-of-the-art, purpose-built greenhouse facilities in Cathedral City, California which includes Sunniva's flagship onsite dispensary. The Sunniva California Campus is planned in two phases. Phase one is designed to be 325,000 square feet and Phase two will be 164,000 square feet. At this facility, it is estimated 30% of all product will be used for higher margin extracted products categories such as pre-rolls, extracted products, vaporizers and beverages and all products will be produced free from the pesticides commonly used within today's industry. As the facility is not complete, revenue and costs are not known,

therefore, profitability cannot be assured.

Natural Health Services Ltd. ("NHS") – NHS owns and operates a network of seven clinics in Canada specializing in medical cannabis under ACMPR. NHS connects patients with safe and effective medical cannabis products through LPs. NHS has in-house physicians and nurse practitioners specializing in the endocannabinoid system providing expert consultation, education, and recommendations for patients. NHS' proprietary technology infrastructure assists physicians, patients and LPs to comply with the rules of Health Canada.

Full-Scale Distributors, LLC ("FSD") – FSD, through its brand, Vapor Connoisseur, is a provider of custom, private-label vaporizers and accessories. FSD currently serves the needs of over 80 brands in the North American marketplace. Vapor Connoisseur is recognized for its high quality and innovative vaporization devices. Products are tailored to client needs, ensuring both safety and reliability and FSD will continue to provide these services in coordination with the large supply from both the Sunniva Canada Campus and the Sunniva California Campus.

For more information please visit: www.sunniva.com

Neither the Canadian Securities Exchange nor its Regulation Services Provider (as that term is defined in the policies of the Canadian Securities Exchange) accepts responsibility for the adequacy or accuracy of this release.

This press release contains forward-looking statements within the meaning of applicable securities laws. All statements that are not historical facts, including without limitation, statements regarding future estimates, plans, programs, forecasts, projections, objectives, assumptions, expectations or beliefs of future performance, statements regarding the Company's operations and growth opportunities, the expected production at the Sunniva California Campus and the estimate that 30% of all product from the Sunniva California Campus will be used for higher margin extracted products, timing, costs and estimates of production for its facilities, and the provision of services by FSD in coordination with supply of cannabis from the Sunniva Canada Campus and the Sunniva California Campus, are "forward-looking statements." Forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking statements. Such risks and uncertainties include, among others, the risk factors included in the Sunniva's continuous disclosure documents available on www.sedar.com. These factors should be considered carefully, and readers are cautioned not to place undue reliance on such forward-looking statements. Although Sunniva has attempted to identify important risk factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other risk factors that cause actions, events or results to differ from those anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in forward-looking statements. Sunniva assumes no obligation to update any forward-looking statement, even if new information becomes available as a result of future events, new information or for any other reason except as required by law.

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For further information: Dr. Anthony Holler, Chairman and Chief Executive Officer; Investor Relations Contact: Robert Knowles, Vice President, Corporate Development, 587-430-0680; ir@sunniva.com

CO: Sunniva Inc.

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