SUNNIVA INC.

Consolidated Financial Statements

For the years ended December 31, 2018 and December 31, 2017
(In Canadian dollars)

Independent Auditor's Report

To the Shareholders of Sunniva Inc.:

Opinion

We have audited the consolidated financial statements of Sunniva Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of loss and comprehensive loss, changes of equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. As stated in Note 2, these events and conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Restated Comparative Information

We draw attention to Note 27 to the consolidated financial statements, which explains that certain comparative information presented for the year ended December 31, 2017 has been restated. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Andrea M. Brown.

Vancouver, British Columbia

MNP LLP

April 29, 2019

Chartered Professional Accountants

MNP LLP

SUNNIVA INC.
Consolidated Statements of Financial Position
As at December 31, 2018
In thousands of Canadian dollars

ASSETS	Notes:		2018		2017
Current assets					**Restated (note 27)**
Cash and cash equivalents		$	2,141	$	11,424
Restricted cash			337		-
Accounts receivable	5		3,881		2,273
Inventory	6		4,240		433
Prepaid expenses and deposits			1,690		402
Assets held-for-sale	7(a)		5,605		-
Total current assets			17,894		14,532
Non-current assets					
Deposits on leases and properties			1,538		382
Property, plant and equipment	7		59,056		16,340
Intangible assets	12		24,551		25,148
Goodwill	12		22,281		18,505
Total non-current assets			107,426		60,375
Total assets		$	125,320	$	74,907
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	14,320	$	5,621
Deferred revenue	15		515		656
Short term loans	17		3,492		-
Warrant liability	18(d)		392		-
Secured promissory notes	13		-		9,262
Provisions	16		441		200
Total current liabilities			19,160		15,739
Non-current liabilities					
Convertible debenture financing	14		8,319		9,495
Warrant liability	18(d)		-		2,098
Finance lease			11,877		11,120
Deferred income taxes	23		951		2,156
Total non-current liabilities			21,147		24,869
Total liabilities			40,307		40,608
Shareholders' equity					
Share capital	18(b)		113,351		53,502
Warrants	8, 18(f)		12,393		2,048
Equity component of convertible debentures	14		1,286		1,806
Contributed surplus			11,699		4,755
Accumulated other comprehensive loss (gain)			2,507		(263)
Deficit			(56,223)		(27,549)
Total shareholders' equity			85,013		34,299
Total liabilities and shareholders' equity		$	125,320	$	74,907

Going concern (note 2A), Commitments and contingencies (note 26), Subsequent events (note 28)

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, 2018 and December 31, 2017
In thousands of Canadian dollars, except share amounts

	Notes:		2018		2017 Restated (note 27)
REVENUE		$	18,789	$	16,072
COST OF GOODS SOLD			10,990		9,389
GROSS MARGIN			7,799		6,683
EXPENSES					
Sales and marketing			884		889
Research and development			-		110
General and administrative	21		23,865		13,391
Share-based payments	18(g)		8,247		3,981
Amortization and depreciation	7, 12		2,934		2,526
			35,930		20,897
Loss from operations			(28,131)		(14,214)
Other expenses					
Fair value changes in derivative instruments	13, 18(d)		(1,532)		5,316
Gain on settlement of promissory note	13		(1,011)		-
Impairment loss on assets held-for-sale	7(a)		1,310		-
Impairment loss on goodwill	12		653		-
Foreign exchange (gain) loss			150		(342)
Interest and other expenses			1,655		313
Loss before income taxes			(29,356)		(19,501)
Taxes					
Deferred tax recovery	23		(308)		(1,988)
Net loss			(29,048)		(17,513)
Other comprehensive loss:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange (gain) loss on translation of foreign operation			(2,770)		230
Comprehensive loss		$	(26,278)	$	(17,743)
Loss per share					
Basic and diluted loss per share (dollars)		$	(0.91)	$	(0.70)
Weighted average number of shares outstanding					
Basic and diluted			31,805,910		25,128,623

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, 2018 and December 31, 2017
In thousands of Canadian dollars, except as otherwise noted

	Note	Number of shares	Share capital	Share subscriptions	Warrants	Special warrants	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at December 31, 2016		18,272,959	$ 23,815	$ 84	$ -	$ -	$ -	$ 415	$ (33)	$(10,036)	$ 14,245
Common shares issued in private placements	18(b)	1,545,499	5,843	-	-	-	-	-	-	-	5,843
Common shares issued in NHS acquisition	9	5,584,371	18,750	-	-	-	-	-	-	-	18,750
Special warrants issued	18(b)	-	-	-	-	6,640	-	-	-	-	6,640
Special warrants converted into shares	18(b)	1,082,128	6,035	-	-	(6,035)	-	-	-	-	-
Equity component of convertible debentures	14	-	-	-	-	-	1,806	-	-	-	1,806
Share subscriptions settled	18(b)	24,568	84	(84)	-	-	-	-	-	-	-
Shareholder loan converted to shares	18(b)	114,325	333	-	-	-	-	-	-	-	333
Share-based payments	18(g)	-	-	-	-	-	-	3,981	-	-	3,981
Warrants issued and revalued	18(e)	-	-	-	2,048	-	-	-	-	-	2,048
Finders' warrants issued in share offerings	18(b)	12,223	22	-	-	-	-	(22)	-	-	-
Share issuance costs		-	(1,380)	-	-	(605)	-	381	-	-	(1,604)
Comprehensive loss for the year		-	-	-	-	-	-	-	(230)	(18,472)	(18,702)
Balance at December 31, 2017		26,636,073	53,502	-	2,048	-	1,806	4,755	(263)	(28,508)	33,340
Correction of error	27	-	-	-	-	-	-	-	-	959	959
Restated balance at December 31, 2017		26,636,073	53,502	-	2,048	-	1,806	4,755	(263)	(27,549)	34,299
Common shares issued in bought deals	18(f)	7,220,900	50,826	-	-	-	-	-	-	-	50,826
Finders' warrants converted into shares	18(c)	349,770	1,640	-	-	-	-	(440)	-	-	1,200
Financing warrants converted into shares	18(d)	69,400	496	-	-	-	-	-	-	-	496
Convertible debentures converted into shares	14	548,179	2,522	-	-	-	(520)	-	-	-	2,002
FSD note converted into shares	13	500,000	5,470	-	-	-	-	-	-	-	5,470
Stock options converted into common shares		231,250	1,275	-	-	-	-	(489)	-	-	786
Share-based payments	18(g)	-	-	-	-	-	-	8,247	-	-	8,247
Forfeited options	18(g)	-	-	-	-	-	-	(374)	-	374	-
Warrants converted into shares	18(e)	1,091,259	7,973	-	(2,048)	-	-	-	-	-	5,925
Warrants issued in bought deals	18(f)	-	(8,954)	-	10,418	-	-	-	-	-	1,464
Acquisition of LTYR Logistics, LLC	8	1,436,949	3,692	-	-	-	-	-	-	-	3,692
Warrants Issued in LTYR Logistics, LLC Acquisition	8	-	-	-	1,975	-	-	-	-	-	1,975
Share issuance costs		-	(5,091)	-	-	-	-	-	-	-	(5,091)
Comprehensive loss for the year		-	-	-	-	-	-	-	2,770	(29,048)	(26,278)
Balance at December 31, 2018		38,083,780	$ 113,351	$ -	$ 12,393	$ -	$ 1,286	$ 11,699	$ 2,507	$(56,223)	$ 85,013

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, 2018 and December 31, 2017
In thousands of Canadian dollars

Cash provided by (used in) operating activities	**Notes:**	**2018**	**2017 Restated (note 27)**
Loss for the year		$ (29,048)	$ (17,513)
Adjustments to reconcile net loss to net cash utilized in operating activities:			
Accretion	14	701	127
Change in provisions	17	241	(2)
Fair value changes in derivative instruments	13, 18(d)	(1,532)	5,316
Share-based payments	18(g)	8,247	3,981
Gain on settlement of promissory note	13	(1,011)	-
Impairment	7(a), 12	1,963	-
Bad debt expense	20(b)	165	45
Amortization and depreciation	7, 12	2,934	2,526
Deferred tax (recovery)	23	(308)	(1,988)
Net cash utilized in operating activities		(17,648)	(7,508)
Changes in non-cash operating assets and liabilities:			
Restricted cash		(337)	-
Accounts receivable		(1,773)	(880)
Inventory		(3,790)	(210)
Prepaid expenses		(1,288)	(229)
Accounts payable and accrued liabilities		8,698	3,066
Deferred revenue		(141)	656
Net cash used in operating activities		(16,279)	(5,105)
Cash used in investing activities			
Deposits on properties and leases		(1,156)	(80)
Purchase of property, plant, and equipment	7	(48,062)	(11,395)
Cash paid for business acquisitions	8	(171)	(2,780)
Cash paid for intangible assets acquired	12	-	(1,124)
Net cash used in investing activities		(49,389)	(15,379)
Cash provided by (used in) financing activities			
Proceeds from finance lease		-	11,120
Proceeds from short term loans	17	3,492	-
Net proceeds from issuance of share capital	18(b)	54,557	4,841
Net proceeds from issuance of warrants	18(b)	-	6,035
Net proceeds from issuance of convertible debentures	14	-	11,978
Net repayment of promissory notes	13	(2,781)	(11,955)
Net cash provided by financing activities		55,268	22,019
Effect of foreign exchange on cash and cash equivalents		1,117	276
Increase (decrease) in cash		(9,283)	1,811
Cash and cash equivalents, beginning of year		11,424	9,613
Cash and cash equivalents, end of year		$ 2,141	$ 11,424

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

1. REPORTING ENTITY

Sunniva Inc. (the "Company") is a company incorporated and headquartered in Canada. The Company was incorporated on August 11, 2014 under the Canada Business Corporations Act. The Company's common shares are listed on the Canadian Securities Exchange (the "Exchange") under the symbol "SNN" and on the OTCQB Market under the symbol "SNNVF". The Company is a vertically integrated cannabis company focused on cultivation, production and distribution of a broad range of therapeutic solutions at scale across Canada and California. The address of the Company's registered office is 1200-200 Burrard Street, Vancouver, British Columbia, Canada V7X 1T2. The Company operates in Canada and the United States.

The Company is subject to regulation under the federal and provincial laws of Canada and the federal and certain civic and state laws in the United States. The production, distribution, sale and use of cannabis and its derivatives is restricted by federal law in the United States despite being legalized for medical and recreational use in Canada and in individual states where the Company operates. The enforcement of these laws and its effect on the Company and its business, employees, directors and shareholders is uncertain and accordingly 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 product 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, 2018, has not generated sufficient revenue to fund operations or planned capital expenditures. The Company has an accumulated deficit of $56,223 as at December 31, 2018 (2017 - $27,549) and incurred a net loss of $29,048 for the year ended December 31, 2018 (2017 - $17,513).

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, 2018, the Company closed two non-brokered financings for gross proceeds of $23,840. See notes 28 (b) and (c).

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 of the Company on April 29, 2019.

2. BASIS OF PRESENTATION (Continued)

C) BASIS OF MEASUREMENT

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, assets held-for-sale, provisions 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 functional currency of the Company and its Canadian subsidiaries. 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.

(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 of warrants, 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.

2. BASIS OF PRESENTATION (Continued)

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

(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 18(d).

(d) Goodwill and intangible asset impairment

For each of the cash generating units ("CGUs") to which goodwill and intangible assets are allocated, the Company performs an annual test for 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.

(e) 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.

(f) 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.

2. BASIS OF PRESENTATION (Continued)

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

(g) Inventory

The valuation of work-in-process and finished goods requires the estimate of conversion costs incurred, which become part of the carrying amount of the inventory. The Company must also determine if the cost of any inventory exceeds its net realizable value, such as cases where prices have decreased, or inventory has spoiled or has otherwise been damaged.

(h) Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied.

(ii) Judgments:

Significant judgments made by management in the process of applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements include:

- the determination of functional currency; 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
1167025 BC Ltd.	CAD	British Columbia, Canada
1111035 Canada Inc.	CAD	British Columbia, Canada
Natural Health Services Ltd. ("NHS")	CAD	Alberta, Canada
1964433 Alberta Ltd.	CAD	Alberta, Canada
CP Logistics, LLC ("CPL")	USD	North Carolina, USA
Full-Scale Distributors, LLC ("FSD")	USD	Florida, USA
LTYR Logistics, LLC ("LTYR")	USD	California, USA
Sunniva Full-Scale Distributors Corporation	USD	California, USA
Sun CA Holdings, Inc.	USD	California, USA
Sunny People, LLC	USD	California, USA
Sun Ramon, LLC	USD	California, USA
A1 Perez, LLC ("Perez")	USD	Delaware, USA
Sun Holdings Management, LLC	USD	Delaware, 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 Canadian dollars at period end exchange rates. Income and expenses, and cash flows of foreign operations are translated into Canadian dollars 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. Cash and cash equivalents are financial assets and are measured initially at fair value and subsequently on an amortized cost basis.

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) ASSETS HELD FOR SALE

Assets and liabilities held for disposal are no longer depreciated and are presented separately in the statement of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

F) 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.

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 is 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) INTANGIBLE ASSETS (Continued)

Amortization of intangible assets is provided on a straight-line basis over the estimated useful lives of the intangible assets, which does 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. For intangible assets that do not have indefinite lives, the estimated useful lives, residual values, and amortization methods are reviewed at each year end, and any changes in estimates are accounted for prospectively. These 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 – 3 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.

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 a financial asset measured at fair value through other comprehensive income is recognized by transferring the cumulative loss previously recognized in other comprehensive income to earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) IMPAIRMENT (Continued)

(ii) Non-financial assets

Non-financial assets are tested for impairment annually, or whenever events or changes in circumstances indicate that an asset's carrying amount may be less than its recoverable amount. Management uses judgment to estimate the inputs to these assessments and any changes to these inputs could have a material impact on the impairment calculation. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into a 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.

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, financial assets at amortized cost, and financial assets at fair value through other comprehensive income. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) FINANCIAL INSTRUMENTS (Continued)

(i) Financial assets (Continued)

- Financial assets at fair value through earnings:

  Financial assets at fair value through earnings include the Company's cash and cash equivalents. A financial asset is classified in this category if it does not meet the criteria for amortized cost or fair value through other comprehensive income, or is a derivative instrument not designated for hedging. Gains and losses arising from changes in fair value are presented in the condensed interim consolidated statements of loss and comprehensive loss in the period in which they arise.

- Financial assets at amortized cost:

  Financial assets at amortized cost include the Company's trade receivables and other receivables. Financial assets at amortized cost are financial assets that are held for the purposes of collecting contractual cash flows, and the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other expenses.

- Financial assets at fair value through other comprehensive income:

  Financial assets at fair value through other comprehensive income are financial assets that are held in a business model with an objective that is achieved by both collecting contractual cash flows and selling financial assets, and where the assets' cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other expenses. Foreign exchange gains and losses are presented in other expenses and impairment expenses are presented as a separate line item in the statement of profit or loss.

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

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

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

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 and convertible debentures, 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 contributed surplus.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The Company sells extracted cannabis products and revenue is recognized when the Company transfers control of the goods to the customer upon delivery.

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 in line with the conditions listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

R) REVENUE RECOGNITION (Continued)

The Company earns patient referral revenue when patients fill their prescriptions with various licensed producers under contract. This revenue is earned after the patient obtains their prescribed cannabis from the licensed producer.

Licensed producers rent display units in the Company's clinics for a monthly fee. This revenue is recognized at the end of the month when the Company's performance obligation has been met.

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.

4. NEW STANDARDS AND INTERPRETATIONS ADOPTED OR NOT YET EFFECTIVE

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

(a) IFRS 9 – Financial Instruments

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

<u>Financial Assets</u>

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

4. NEW STANDARDS AND INTERPRETATIONS ADOPTED OR NOT YET EFFECTIVE (Continued)

(a) IFRS 9 – Financial Instruments (Continued)

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

- Trade receivables and other receivables are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loans and receivables.

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

Financial Liabilities

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

Expected Credit Loss Impairment Model

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

(b) IFRS 15 – Revenue from contracts with customers

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

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

The following standards and amendments are not yet effective and will be adopted by the Company for the first time for the financial year beginning on January 1, 2019:

(c) IFRS 16 – Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the lease item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

The Company has reviewed all of its leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting of the Company's operating leases.

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

4. NEW STANDARDS AND INTERPRETATIONS ADOPTED OR NOT YET EFFECTIVE (Continued)

(c) IFRS 16 – Leases (Continued)

As at December 31, 2018, the Company has non-cancellable operating lease commitments of $213,813 (note 26(a)). Of these commitments, approximately $35 relate to short-term leases which will be recognized on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Company expects to recognize right-of-use assets of approximately $6,403 and lease liabilities of $6,757 on January 1, 2019. Overall net assets will be approximately $354 lower, and net current assets will be $1,959 lower due to the presentation of a portion of the liability as a current liability. The Company expects that net loss will increase by approximately $94 in for the year ending December 31, 2019 as a result of adoption IFSR 16. Operating cash flows will increase and financing cash flows will decrease by approximately $2,039 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The Company will apply the standard from its mandatory adoption date of January 1, 2019. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

5. ACCOUNTS RECEIVABLE

	2018	2017
Trade accounts receivable	$ 2,955	$ 2,273
Other receivables	926	-
	$ 3,881	$ 2,273

6. INVENTORY

Inventory consists of cannabis, cannabis oils and merchandise held for sale. As at December 31, 2018, the Company held 1,235 kg of dry cannabis (640 kg of which was finished goods and 595 kg held for future extract production) and 332 L of cannabis oils, compared to nil held at December 31, 2017.

	2018	2017
Dry cannabis		
Held for packaging	$ 785	$ -
Held for extraction	284	-
	1,069	-
Cannabis oils		-
Finished goods	1,568	-
Work-in-process	475	-
	2,043	-
Non-cannabis products		
Product for resale (vaporizers and other)	239	433
Supplies and consumables	889	-
	$ 4,240	$ 433

The cost of inventory recognized as an expense and included in cost of sales for the year ended December 31, 2018 amounted to $6,296 (2017 – $4,329).

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

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Construction in progress	Finance Lease	Equipment	Total
Costs					
Balance, January 1, 2017	$ 1,785	$ 197	$ -	$ 49	$ 2,031
Acquisition of NHS (note 9)	-	-	-	225	225
Additions	5,088	5,814	-	493	11,395
Sale and lease back (note 18(e))	(6,873)	(4,573)	11,446	-	-
Warrants issued in sale and lease back (note 18(e))	-	-	2,804	-	2,804
Balance, December 31, 2017	-	1,438	14,250	767	16,455
Additions	8,345	35,951	-	4,061	48,357
Acquisition of LTYR (note 8)	-	-	-	219	219
Disposals	-	-	-	(49)	(49)
Assets classified as held-for-sale (a)	-	(5,605)	-	-	(5,605)
Impairment loss (a)	-	(1,310)	-	-	(1,310)
Transfers	-	(1,128)	-	882	(246)
Foreign exchange	15	567	1,004	513	2,099
Balance, December 31, 2018	$ 8,360	$ 29,913	$ 15,254	$ 6,393	$ 59,920

	Land	Construction in progress	Finance Lease	Equipment	Total
Accumulated Depreciation					
Balance, January 1, 2017	$ -	$ -	$ -	$ -	$ -
Depreciation	-	-	-	115	115
Balance, December 31, 2017	-	-	-	115	115
Depreciation	-	-	-	722	722
Foreign exchange	-	-	-	27	27
Balance, December 31, 2018	$ -	$ -	$ -	$ 864	$ 864

Net book value					
December 31, 2017	$ -	$ 1,438	$ 14,250	$ 652	$ 16,340
December 31, 2018	$ 8,360	$ 29,913	$ 15,254	$ 5,529	$ 59,056

(a) Assets held-for-sale

In December 2018, management committed to a plan to sell the materials purchased for construction of the Sunniva Canada campus in Okanagan Falls, British Columbia (the "Sunniva Canada Campus"). Accordingly, these assets are presented as assets held-for-sale. A portion of this material was sold subsequent to year-end on January 24, 2019. An impairment loss of $1,310 for write-down of the assets held-for-sale to the lower of carrying amount and fair value less costs to sell has been separately disclosed in the Statement of Comprehensive Income. There are no cumulative income or expenses included in Other Comprehensive Income related to the assets held-for-sale.

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

8. ACQUISITION OF LTYR LOGISTICS, LLC

On December 28, 2018, the Company acquired 100% of the membership interests of LTYR, a California-based distributor of cannabis products. The acquisition has increased the Company's presence in the California cannabis market with LTYR's experienced management team and existing customer relationships. LTYR will complement the Company's existing operations in California and expand its vertical integration in the market.

Detail of the purchase consideration, the net assets acquired and goodwill are as follows:

		Amount
Common shares issued	$	3,692
Performance warrants		1,975
Cash paid		175
Total purchase consideration	$	5,843

The fair value of the 1,436,949 common shares issued as part of the consideration paid for LTYR was based on the published share price on December 28, 2018 of $3.12 per share and discounted for share lock-up restrictions. In addition, 718,473 performance warrants were issued and shall be convertible into common shares of the Company, at no additional cost, if certain operational milestones are achieved. The Company has assessed that it is highly likely that the warrants will become convertible. The valuation of the performance warrants was based on the published share price on December 28, 2018 of $3.12 per share and discounted for the estimated time period that the operational milestones are achieved. The goodwill is attributable to the management team of LTYR.

The assets and liabilities recognized as a result of the acquisition are as follows:

		Amount
Cash	$	5
Inventory		17
Property, Plant & Equipment		219
Customer relationships		1,434
Net identifiable assets acquired		1,675
Goodwill		4,168
Net assets acquired	$	5,843

9. ACQUISITION OF NATURAL HEALTH SERVICES LTD.

On February 8, 2017, the Company acquired all of the issued and outstanding shares of 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.

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

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

The assets and liabilities recognized as a result of the acquisition are as follows:

	Final
Working capital acquired	$ 773
Equipment	225
Software	4,252
Trademarks	1,483
Customer relationships	3,831
Deferred income tax	(2,584)
Goodwill	14,520
Total purchase price	$ 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.

10. ACQUISITION OF FULL-SCALE DISTRIBUTORS, LLC

On February 10, 2017, the Company acquired 100% of the membership interests in 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 $5,535 (US$4,302) in a secured promissory note (see notes 13 and 27). 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.

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

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

The assets and liabilities recognized as a result of the acquisition are as follows:

	Final
Working capital acquired	$ 144
Customer relationships	1,700
Non-compete agreement	1,741
Contingent consideration	(198)
Goodwill	4,109
Total purchase price	$ 7,496

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 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, 2018 and 2017.

11. ACQUISITION OF A1 PEREZ, LLC

On August 17, 2017, the Company entered into a purchase agreement with the members of 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.

12. INTANGIBLE ASSETS AND GOODWILL

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Costs:						
Balance, January 1, 2017	$ 13,566	$ -	$ -	$ -	$ -	$ 13,566
Acquisition of NHS (note 9)	-	4,252	1,483	3,831	-	9,566
Acquisition of FSD (note 10)	-	-	-	1,741	1,700	3,441
Acquisition of Perez (note 11)	1,258	-	-	-	-	1,258
License 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
Additions (note 8)	-	-	-	1,434	-	1,434
Foreign exchange	379	-	-	146	143	668
Balance, December 31, 2018	$ 15,069	$ 4,252	$ 1,483	$ 7,082	$ 1,774	$ 29,660

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

12. INTANGIBLE ASSETS AND GOODWILL (Continued)

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Accumulated amortization:						
Balance, January 1, 2017	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	-	650	136	1,104	520	2,410
Balance, December 31, 2017	-	650	136	1,104	520	2,410
Amortization	-	708	148	1,205	562	2,623
Foreign exchange	-	-	-	24	52	76
Balance, December 31, 2018	$ -	$ 1,358	$ 284	$ 2,333	$ 1,134	$ 5,109

Net book value:

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
December 31, 2017	$ 14,690	$ 3,602	$ 1,347	$ 4,398	$ 1,111	$ 25,148
December 31, 2018	$ 15,069	$ 2,894	$ 1,199	$ 4,749	$ 640	$ 24,551

	Goodwill
Balance, January 1, 2017	$ -
Additions	18,629
Foreign exchange	(124)
Balance, December 31, 2017 (Restated, see note 27)	18,505
Additions (note 8)	4,168
Impairment	(653)
Foreign exchange	261
Balance, December 31, 2018	$ 22,281

The Company performs goodwill impairment testing at least at each reporting period and whenever impairment indicators are identified. The Company has identified five 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 19% for NHS and 30% for FSD, CPL and LTYR.

Sensitivity analysis:

Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions would not result in an impairment loss.

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

12. INTANGIBLE ASSETS AND GOODWILL (Continued)

At December 31, 2018, the Company recorded an impairment charge of $653 relating to NHS. This reduction reflects the Company's outlook on the medical cannabis industry in Canada as a result of the legalized recreational market. The impairment was determined by comparing the operating segment's value-in-use to its book cost. A discount rate of 19% was utilized in this analysis.

This impairment charge was fully allocated to goodwill and relates to the Patient Counselling operating segment.

13. SECURED CONVERTIBLE PROMISSORY NOTES

On February 10, 2017, the Company issued a secured promissory note (the "FSD note") in an aggregate principal amount of $4,576 (US$3,500) relating to the FSD acquisition. On February 15, 2018, the FSD note was repaid partially in cash of $2,781 (US$2,225), plus accrued interest, and the remaining portion through the issuance of 500,000 common shares at a conversion price of $3.19 (US$2.55) per common share. The share price on the conversion date was $10.94 per common share.

The continuity of the secured convertible notes is as follows:

	Amount
Balance, January 1, 2017	$ 9,333
Issuance of promissory notes	2,936
Issuance of the FSD note	5,535
Repayment of promissory notes	(11,890)
Valuation adjustment for the FSD note	3,867
Foreign exchange adjustment	(519)
Balance, December 31, 2017	9,262
Valuation adjustment for FSD note	14
Repayment of the FSD note	(2,781)
Conversion of the FSD note	(5,470)
Gain on settlement of the FSD note	(1,011)
Foreign exchange adjustment	(14)
Balance, December 31, 2018	$ -

14. CONVERTIBLE DEBENTURE FINANCING

In November and December 2017, the Company completed a private placement of unsecured convertible debentures in the aggregate principal amount of $12,135. The debentures bear interest at 8% per annum, payable annually and mature on December 31, 2020. The debentures are convertible into common shares of the Company at a price of $4.60 per share at the holder's option. The equity portion was determined to be $2,632, less a deferred tax recovery of $788 for a net balance of $1,844. On closing, the Company paid finders' fees of $173, of which $38 has been allocated to the equity portion for net equity balance of $1,806.

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.

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

14. CONVERTIBLE DEBENTURE FINANCING (Continued)

	Amount
Balance, January 1, 2017	$ -
Issued	12,135
Equity portion	(2,632)
Accretion	127
Financing fees	(135)
Balance, December 31, 2017	9,495
Conversion of debentures	(1,877)
Accretion	701
Balance, December 31, 2018	$ 8,319

As at December 31, 2018, $2,522 of the convertible debentures had been converted into 548,179 common shares. This resulted in a reduction in convertible debenture financing of $1,877, a transfer of $520 from the equity portion of convertible debentures to share capital and a reduction in accrued interest of $125.

15. DEFERRED REVENUE

Merchandise sales require a prepaid deposit before the product is shipped and the revenue is deferred until the product is delivered to the customer. There are $515 of customer deposits at December 31, 2018 (December 31, 2017 - $656).

16. PROVISIONS

	Onerous Lease	Contingent Consideration	Total
Balance, January 1, 2017	$ 202	$ -	$ 202
Provisions made during the year	-	57	57
Amortization of provision	(59)	-	(59)
Balance, December 31, 2017	143	57	200
Amortization of provision	(404)	-	(404)
Increase in provision	620	-	620
Foreign exchange	25	-	25
Balance, December 31, 2018	$ 384	$ 57	$ 441

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 and has an end date of December 31, 2019.

17. SHORT TERM LOANS

In June 2018, the Company entered into a $3,492 mortgage to finance the purchase of land for the greenhouse facility in Okanagan Falls, British Columbia. The mortgage is repayable on June 15, 2019 and has an interest rate of 5% per annum. The Company has the option to repay the principal at any time without additional fees. The mortgage is denominated in Canadian dollars and is carried at amortized cost. It therefore did not have any impact on the Company’s exposure to foreign exchange and cash flow interest rate risk.

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

18. SHARE CAPITAL

(a) Authorized

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

(b) Issued and Outstanding – Common Shares

	Number of Shares	Price	Total
Balance, January 1, 2017	18,272,959		$ 23,815
Private placement	1,039,215	$3.33 (US$2.55)	3,465
Private placement	5,880	$3.40	20
Private placement	40,000	$3.36 (US$2.55)	133
Private placement	263,675	$3.40	897
Share subscriptions settled	1,960	$3.38 (US$2.55)	6
Share subscriptions settled	3,000	$3.40	10
Acquisition of Natural Health Services Ltd.	5,584,371	$3.31 (US$2.55)	18,750
Share subscriptions settled	19,608	$3.44 (US$2.55)	68
Conversion of shareholder loans	114,325	$2.91	333
Private placement	183,672	$6.75	1,240
Non-brokered private placement	13,057	$6.75	88
Conversion of special warrants	1,082,128	$6.75	6,035
Conversion of finders' warrants	12,223	$6.75	22
Share issuance costs and finders' warrant			(1,380)
Balance, December 31, 2017	26,636,073		53,502
Proceeds on conversion of financing warrants	69,400	$3.16 (US$2.55)	219
Conversion of financing warrants			277
Conversion of the FSD note	500,000	$3.19 (US$2.55)	5,470
Bought deal public offering - March	2,850,900	$9.75	27,796
Warrants issued in bought deal public offering - March			(4,809)
Bought deal public offering – October	4,370,000	$4.60	23,030
Warrants issued in bought deal public offering - October			(4,145)
Proceeds on conversion of warrants issued in sale and leaseback	1,091,259	$4.60	5,028
Conversion of warrants issued in sale and leaseback			2,048
Deferred tax transfer on conversion of warrants			897
Acquisition of LTYR Logistics, LLC	1,436,949	$2.75	3,692
Proceeds on conversion of finders' warrants	346,612	$3.40	1,179
Proceeds on conversion of finders' warrants	3,158	$6.75	21
Conversion of finders' warrants			440
Conversion of debentures	548,179	$4.60	2,522
Proceeds on conversion of stock options	231,250	$3.40	786
Conversion of stock options			490
Share issuance costs			(5,092)
Balance, December 31, 2018	38,083,780		$113,351

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

18. SHARE CAPITAL (Continued)

(c) Finders' Warrants

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

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
December 20, 2016	38,941	(38,941)	-	$3.40	June 30, 2018
December 29, 2016	289,298	(289,298)	-	$3.40	June 30, 2018
February 7, 2017	14,525	(14,525)	-	$3.40	February 7, 2018
February 7, 2017	3,850	(3,850)	-	$3.40	February 8, 2018
June 22, 2017	100,000	-	100,000	$6.75	June 22, 2019
October 28, 2017	59,596	(3,158)	56,438	$6.75	June 27, 2019
	506,210	(349,772)	156,438		

For the year ended December 31, 2018, 338,660 warrants were exercised for proceeds of $1,178, which is included in share capital along with a transfer of $440 from contributed surplus. For the year ended December 31, 2017, 11,112 warrants were exercised for proceeds of $22. The weighted average remaining contractual life of the finders' warrants is 0.5 years.

(d) Financing warrants

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

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
December 29, 2016	100,000	-	100,000	US $2.55	April 12, 2019
December 29, 2016	100,000	(69,400)	30,600	US $2.55	May 1, 2019
December 29, 2016	300,000	-	300,000	US $2.55	July 19, 2019
	500,000	(69,400)	430,600		

The weighted average grant date fair value of the financing warrants was determined to be $1.61 per warrant for a total of $804. During the year ended December 31, 2018, 69,400 of the financing warrants had been exercised for proceeds of $219, which is included in share capital along with $277 transferred from the warrant liability. The weighted average remaining contractual life of the finders' warrants is 0.5 years.

As at December 31, 2018, the fair value of the warrants ranged from $0.48 to $0.70 per warrant. The warrants have a fair value of $392. The fair value of these warrants was determined on the date of the grant and December 31, 2018 using the Black-Scholes option pricing model with the following weighted average assumptions:

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

18. SHARE CAPITAL (Continued)

(d) Financing warrants (Continued)

- risk free interest rate of 1.72%;
- expected life of 0.4 years;
- expected volatility of 78%; and
- expected dividends of $Nil.

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

		Amount
Balance, January 1, 2017	$	764
Valuation adjustment		1,449
Foreign exchange adjustment		(115)
Balance, December 31, 2017		2,098
Valuation adjustment		(1,546)
Conversion into common shares		(277)
Foreign exchange adjustment		117
Balance, December 31, 2018	$	392

(e) Warrants issued in sale and leaseback

On October 23, 2017, the Company issued the following warrants in conjunction with the sale and lease back of the land related to the production facility in Cathedral City, California. Each warrant is exercisable into one common share of the Company upon payment of the exercise price. These warrants were exercised on April 12, 2018.

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

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

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

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

		Amount
Balance, January 1, 2017	$	-
Issuance		2,804
Deferred tax recovery		(756)
Balance, December 31, 2017		2,048
Conversion into common shares		(2,048)
Balance, December 31, 2017 and 2018	$	-

18. SHARE CAPITAL (Continued)

(f) Warrants issued in bought deal public offerings

(i) March bought deal

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

The grant date fair value of the March Warrants was determined to be $3.37 per March Warrant for a total of $4,975 and the amount is included under warrants in equity. In addition, the Company issued an aggregate of 171,054 compensation options to the underwriters at a fair value of $700. The fair values of these March Warrants and options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

- risk free interest rate of 0.92%
- expected life of 2 years;
- expected volatility of 76%; and
- expected dividends of $Nil.

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

Total cash share issuance costs amounted to $2,007 which consisted of underwriters’ commission of $1,668, underwriters’ expenses of $15, and legal fees of $324. Also included in share issuance costs are the compensation warrants valued at $700. 1,425,450 March Warrants are outstanding as at December 31, 2018 with a weighted average remaining contractual life of 1.3 years.

(ii) October bought deal

On October 12, 2018, the Company completed a bought deal public offering for aggregate gross proceeds of $23,030. A total of 4,370,000 units (“October Units”) were sold at a price of $5.27 per October Unit. Each October Unit consists of one common share and on-half of one common share purchase warrant of the Company (an “October Warrant”). Each October Warrant shall entitle the holder thereof to acquire one common share at an exercise price per share of $6.85 for a period of 24 months from the date of issuance.

The grant date fair value of the October Warrants was determined to be $1.90 per October Warrant for a total of $4,145 and the amount is included under warrants in equity. In addition, the Company issued an aggregate of 262,200 compensation options to the underwriters at a fair value of $598. The fair values of these October Warrants and options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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

18. SHARE CAPITAL (Continued)

(f) Warrants issued in bought deal public offerings (Continued)

(ii) October bought deal (Continued)

- risk free interest rate of 1.37%
- expected life of 2 years;
- expected volatility of 81%;
- expected forfeiture rate of 9.36%; and
- expected dividends of $Nil.

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

Total cash share issuance costs amounted to $1,686 which consisted of underwriters' commission of $1,382, underwriters' expenses of $15, and legal fees of $289. Also included in share issuance costs are the compensation warrants valued at $598. 2,185,000 October Warrants are outstanding as at December 31, 2018 with a weighted average remaining contractual life of 1.9 years.

(g) Share-based payments

The Company has an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants, non-transferable options to purchase common shares to a maximum number of common shares which may be issued pursuant to options granted under the plan at any point in time equal to 15% of the total issued and outstanding common shares on a fully-diluted basis, where the issued and outstanding number of common shares on a fully-diluted basis is determined without giving effect to outstanding and unexercised options. Options expire ten years from the grant date. Options issued vest one-sixteenth every three months from the date of grant. There are 5,082,250 options that have not vested as at December 31, 2018. A summary of the status of the options outstanding is as follows:

	Stock options	Weighted Average Exercise Price
Balance, January 1, 2017	-	$ -
Granted	3,695,000	4.26
Forfeited	(384,375)	(3.40)
Balance, December 31, 2017	3,310,625	$ 4.36
Granted	2,349,000	5.55
Exercised	(231,250)	(3.40)
Forfeited	(324,250)	(4.80)
Expired	(21,875)	(6.75)
Balance, December 31, 2018	5,082,250	$ 4.93

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

18. SHARE CAPITAL (Continued)

(g) Share-based payments (Continued)

The following table summarizes the stock options that remain outstanding as at December 31, 2018:

Exercise Price	Options Outstanding	Expiry Date	Remaining Contract Life	Options Exercisable
$3.40	1,843,750	April 2027	8.29	691,406
$3.40	100,000	June 2027	8.46	37,500
$6.75	50,000	July 2027	8.51	15,625
$6.75	50,000	July 2027	8.59	15,625
$6.75	120,000	August 2027	8.62	37,500
$6.75	50,000	August 2027	8.65	15,625
$6.75	400,000	October 2027	8.82	100,000
$6.75	175,000	December 2027	8.94	43,750
$6.75	650,000	January 2028	9.17	121,875
$8.11	250,000	June 2028	9.44	31,250
$7.81	304,000	June 2028	9.50	38,000
$6.73	100,000	September 2028	9.68	6,250
$3.10	989,500	December 2028	9.94	-
	5,082,250		8.96	1,154,406

The Company recognized a share-based compensation expense of $8,247 for the year ended December 31, 2018 ($3,981 for the year ended December 31, 2017). The total fair value of the options granted during the year ended December 31, 2018 was $9,848 ($11,327 for the year ended December 31, 2017).

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

- risk free interest rate of 1.6%;
- expected life of 7.8 years;
- expected volatility of 77.5%; 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.

19. 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 secured promissory notes.

19. CAPITAL RISK MANAGEMENT (Continued)

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 of the Company is responsible for overseeing this process. As at December 31, 2018, the Company is not subject to externally imposed capital requirements. There were no changes to the management of capital from the prior year.

20. FINANCIAL INSTRUMENTS AND RISK EXPOSURES

The Company's financial assets include cash and cash equivalents and accounts receivable. The Company's financial liabilities include accounts payable and accrued liabilities, short term loans, convertible debenture financing, secured promissory notes payable, contingent consideration and warrant liability. All financial instruments are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and are subsequently carried at fair value or amortized cost. The carrying values of these financial instruments approximate their fair values based on the nature of these instruments as at December 31, 2018 and December 31, 2017.

Cash and cash equivalents are classified as financial assets at fair value through profit or loss and measured at fair value. Accounts receivables are classified as financial assets measured at amortized cost using the effective interest rate method. Accounts payable and accrued liabilities, short term loans and convertible debenture financing are classified as financial liabilities measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The secured promissory notes payable, contingent consideration and warrant liability are classified as financial liabilities at fair value through profit and loss.

The carrying value of the Company's financial assets and liabilities is considered to be a reasonable approximation of fair value due to their immediate or short-term maturity, or their ability for liquidation at comparable amounts.

(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 promissory notes	Level 3
Warrant liability	Level 3

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

20. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(a) Fair value measurements (Continued):

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

As at December 31, 2018 and 2017, the fair values of all financial instruments carried at amortized cost approximated their carrying value.

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

The level 3 financial instruments decreased the net loss of the Company by $1,429 for the year ended December 31, 2018 (increased the net loss by $4,682 for the year ended December 31, 2017).

(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.

Trade Accounts receivable primarily consist of trade accounts receivable and goods and services taxes recoverable ("GST"). The Company mitigates this risk by managing and monitoring the underlying business relationships. The Company provides credit to its customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk, but this risk is limited as certain sales are transacted with credit cards. A credit loss of $165 was recognized at December 31, 2018 (2017 – 45).

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

	At December 31, 2018	At December 31, 2017
0 – 30 days	$ 2,217	$ 1,022
31 – 60 days	566	348
61 – 90 days	93	180
91 days and over	1,005	724
	$ 3,881	$ 2,273

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

20. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(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 (note 26), the Company has the following contractual obligations:

As at December 31, 2018	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	$ 14,320	$ 14,320	$ -	$ -
Secured promissory notes	-	-	-	-
Short term loans	3,492	3,492	-	-
Warrant liability	392	392	-	-
Convertible debenture financing	8,319	-	8,319	-
	$ 26,523	$ 18,204	$ 8,319	$ -

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

(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, 2018, including cash, accounts receivable and accounts payable, would result in an increase or decrease of approximately $330 (2017 - $108) to the net loss and comprehensive loss for the year ended December 31, 2018.

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

20. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(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.

21. CORPORATE EXPENSES

	2018	2017
Salaries and consulting fees	$ 15,098	$ 8,376
Rent and utilities	2,421	1,201
Accounting and legal	2,348	2,256
Travel	1,042	650
Office and miscellaneous	1,025	673
Insurance	1,012	75
Project development costs	602	-
Licensing fees	268	76
Loss on disposal of assets	49	84
	$ 23,865	$ 13,391

22. FINANCE EXPENSES

	2018	2017
Change in fair value of warrants	$ (1,532)	$ 5,316
Interest and bank charges	953	186
Accretion	701	127
Foreign exchange	150	(342)
	$ 272	$ 5,287

23. INCOME TAXES

(a) Income tax expense

Income tax is comprised of deferred tax recovery of $308 for the year ended December 31, 2018 ($1,988 for the year ended December 31, 2017).

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:

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

23. INCOME TAXES (Continued)

(a) Income tax expense (Continued)

	2018	2017
Loss before income taxes	$ (29,356)	$ (19,501)
Canadian statutory rate	27%	27%
Expected income tax recovery	(7,926)	(5,265)
Share-based payments	2,227	1,078
Effect of permanent difference	996	-
Share issuance costs	(1,375)	(268)
Foreign tax rate differential	(279)	(21)
Other	(260)	131
Change in unrecognized deferred tax assets	6,309	2,357
Income tax recovery	$ (308)	$ (1,988)

(b) Deferred income tax assets and liabilities

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

Deferred tax assets	2017	Recovered through (charged to) earnings	Recovered through (charged to) equity	2018
Non-capital losses	$ 4,120	$ 4,572	$ -	$ 8,692
Share issuance costs	548	(323)	1,375	1,600
Non-compete agreement	181	102	-	283
Secured promissory notes	1,243	(1,243)	-	-
Warrant liability	566	(566)	-	-
Goodwill	-	1,002	-	1,002
Lease accrual	-	130	-	130
Deferred revenue	-	144	-	144
Other	35	114	-	149
Total deferred tax assets	$ 6,693	$ 3,932	$ 1,375	$ 12,000
Deferred tax liabilities				
Property, plant & equipment	$ (829)	$ 532	$ 757	$ 460
Licenses	-	(300)	-	(300)
Software	(972)	552	-	(420)
Trademarks	(363)	40	-	(323)
Customer relationships	(717)	279	-	(438)
Convertible debenture financing	(730)	207	140	(383)
Total deferred tax liabilities	$ (3,611)	$ 1,310	$ 897	$ (1,404)
Net deferred tax assets	$ 3,082	$ 5,242	$ 2,272	$ 10,596
Deferred tax assets not recognized	(5,238)	(4,934)	(1,375)	(11,547)
Deferred tax assets (liabilities)	$ (2,156)	$ 308	$ 897	$ (951)

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

23. INCOME TAXES (Continued)

(c) Loss carry forwards

The Company has non-capital losses carried forward of $25,765 in Canada expiring between 2034 and 2038, US federal non-capital losses carried forward indefinitely of $2,782, and state non-capital losses of $13,656 expiring in 2027 and 2028.

The Company has tax capital losses carried forward of $177 that can be used to offset capital gains in Canada.

A benefit of $191 arising from a previously unrecognized tax loss of a prior period was used to reduce current income tax expense to nil.

24. 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

	2018	2017
Salaries and consulting fees	$ 2,901	$ 1,594
Share-based payments	4,473	2,329
	$ 7,374	$ 3,923

Amounts due to related parties:	2018	2017
Consulting fees and wages	$ 135	$ 127

(b) Other benefits:

	2018	2017
Termination payments	$ -	$ 250

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.

(d) Other related party

During the year ended December 31, 2018 the Company paid $632 to a legal firm which is associated with a director ($559 for the year ended December 31, 2017). As at December 31, 2018, the Company owes the legal firm $9 (December 31, 2017 - $69).

During the year ended December 31, 2018, the Company paid $229 to a consulting firm which is associated with a director ($nil for the year ended December 31, 2017). As at December 31, 2018, the Company owes the consulting firm $55 (December 31, 2017 - $nil).

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

24. RELATED PARTY TRANSACTIONS (Continued)

(d) Other related party (Continued)

During the year ended December 31, 2018, an investment fund which is associated with a director invested $nil in the Company ($4,124 for the year ended December 31, 2017) through the purchase of common shares.

In October 2017, the Company entered into an agreement with a property development company, which is associated with a director, to construct and subsequently lease the greenhouse facility in Cathedral City, California. As part of this arrangement, a company in which the director has a significant interest was issued 1,091,259 warrants convertible at $4.60 per common share (note 18(e)). These warrants were exercised on April 12, 2018.

The Company has an agreement with entities owned or controlled by an employee of the Company, whereby the Company funded the expenses associated with a licensed cannabis cultivation facility in Oakland, California owned by these entities in exchange for access to cannabis genetic and propagating materials produced at that facility. The cannabis genetic and propagating materials will be used at the Sunniva California Campus. During the year ended December 31, 2018, the Company paid $1,256 towards this agreement ($232 for the year ended December 31, 2017). This agreement expires in April 2019.

25. SEGMENTED INFORMATION

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

December 31, 2018	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 10,606	$ 8,061	$ 122	$ -	$ 18,789
Gross margin	7,387	1,296	(884)	-	7,799
Impairment loss	(653)	-	-	-	(653)
Income (loss) from operations	(2,247)	231	(3,917)	(22,198)	(28,131)
Net income (loss)	$ (976)	$ 229	$ (3,897)	$ (24,404)	$ (29,048)

December 31, 2017	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 11,291	$ 4,781	$ -	$ -	$ 16,072
Gross margin	6,508	175	-	-	6,683
Income (loss) from operations	(1,637)	(1,545)	(60)	(10,972)	(14,214)
Net income (loss)	$ (1,205)	$ (809)	$ (60)	$ (15,439)	$ (17,513)

As at December 31, 2018	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Total assets	$ 22,903	$ 2,820	$ 62,804	$ 36,793	$ 125,320
Total liabilities	$ 1,959	$ 1,524	$ 17,576	$ 19,248	$ 40,307
As at December 31, 2017					
Total assets	$ 25,156	$ 7,104	$ 27,900	$ 14,747	$ 74,907
Total liabilities	$ 3,865	$ 2,313	$ 11,120	$ 23,310	$ 40,608

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

26. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Company is committed under a lease agreement with respect to office premises located in Calgary, Alberta and Vancouver, British Columbia expiring on October 31, 2027 and May 31, 2023, respectively, and lease agreements with respect to NHS clinics located across Canada expiring between September 30, 2019 and December 31, 2022.

The Company leases production facilities in California with two leases which commenced in 2016 and a facility in Cathedral City, California commencing in 2019. 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
2019	$ 3,142	$ 1,763	$ 4,905
2020	12,686	1,692	14,378
2021	12,686	1,118	13,804
2022	12,686	569	13,255
Thereafter	165,527	1,944	167,471
	$ 206,727	$ 7,086	$ 213,813

(b) Legal proceedings

In March 2019, the Company, along with NHS, was named in a class action lawsuit in connection with a privacy breach of the Electronic Medical Record system used by NHS. The litigation process has not yet commenced, and the Company will defend its position. No amount has been recorded in the consolidated financial statements since an amount cannot be reliably measured at this point.

27. RESTATEMENT

The Company has retroactively corrected an error related to the 2017 acquisition of FSD. On acquisition, the secured promissory note issued as partial consideration was recorded at its face value of $4,576 (US$3,500) instead of its fair value of $5,535 (US$4,302). As a result, goodwill at December 31, 2017 was understated by $959. In addition, as a result of the understatement of the promissory note on acquisition, fair value changes in financial instruments and foreign exchange (gain) loss for the year ended December 31, 2017 were overstated by $1,005 and $46, respectively.

The error has been corrected by restating each of the affected financial statement line items for the prior period as follows:

Balance sheet (extract)	**2017**	**Increase / (Decrease)**	**2017 Restated**
Goodwill	$ 17,546	$ 959	$ 18,505
Net assets	$ 33,340	$ 959	$ 34,299
Retained earnings	$ (28,508)	$ 959	$ (27,549)
Total equity	$ 33,340	$ 959	$ 34,299

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

27. RESTATEMENT (Continued)

Statement of loss (extract)	**2017**	**Increase / (Decrease)**	**2017 Restated**
Loss from operations	$ 14,214	$ -	$ 14,214
Fair value changes in derivative instruments	6,321	(1,005)	5,316
Foreign exchange (gain) loss	(388)	46	(342)
Net loss	$ 18,472	$ (959)	$ 17,743

Basic and diluted loss per share for the prior year have also been restated. The amount of the correction for both basic and diluted loss per share was a decrease of $0.04 per share.

28. 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 24, 2019, the Company sold a portion of the construction materials at the Sunniva Canada Campus in Okanagan Falls, British Columbia for $3,363. These assets are classified as held-for-sale at December 31, 2018. Refer to note 7(a) for details.

(b) On February 12, 2019, the Company closed an initial tranche of a non-brokered offering of convertible debentures for gross proceeds of $15,042. On March 1, 2019, the Company closed a second tranche of the non-brokered offering of convertible debentures for gross proceeds of $3,288. The debentures bear interest at 10% per annum, payable annually and mature on February 15, 2021. The debentures are convertible into common shares of the Company at a price of $5.27 per share at the holder's option.

(c) On April 15, 2019, the Company closed a non-brokered private placement for gross proceeds of $4.3 million for a total of 4.3 million units issued. On April 24, 2019 the Company closed a second tranche of the non-brokered private placement for gross proceeds of $1.2 million for a total of 1.2 million units. In aggregate, a total of 5.5 million units of the Company were issued, with each unit consisting of a principal amount of unsecured promissory notes of the Company at an interest rate of 10% and 0.1897 common share purchase warrants of the Company at an exercise price of $5.27 per warrant. The promissory notes mature on the earlier of (i) two business days following receipt by the Company of proceeds from the sale of any or all of the Company’s Canadian assets following the respective closing dates, which, in the aggregate are equal to or greater than the proceeds of the offering; and (ii) 6 months from the closing dates.