SUNNIVA INC.

Condensed Interim Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2019 and 2018
(In Canadian Dollars)

SUNNIVA INC.
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
As at June 30, 2019 and December 31, 2018
In thousands of Canadian dollars, except share amounts

ASSETS	**Notes**		**June 30, 2019**		**December 31, 2018**
Current assets					
Cash and cash equivalents		$	1,599	$	2,141
Restricted cash			-		337
Accounts receivable	3		6,547		3,881
Inventory	4		4,885		4,240
Prepaid expenses and deposits			1,967		1,690
Assets held-for-sale	5(a)		22,135		5,605
Total current assets			37,133		17,894
Non-current assets					
Deposits on leases and properties			1,239		1,538
Property, plant and equipment	5		57,185		59,056
Intangible assets	6		22,478		24,551
Goodwill	6		21,939		22,281
Total non-current assets			102,841		107,426
Total assets		$	139,974	$	125,320
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued liabilities		$	12,038	$	14,320
Deferred revenue	11		731		515
Short term loans	13		2,366		3,492
Warrant liability	14(d)		-		392
Lease liabilities	10		1,924		-
Unsecured promissory notes	9		5,170		-
Liabilities associated with assets held-for-sale	5(a)		6,500		-
Provisions	12		57		441
Total current liabilities			28,786		19,160
Non-current liabilities					
Convertible debenture financing	8		21,548		8,319
Lease liabilities	10		16,237		11,877
Deferred income taxes			385		951
Total non-current liabilities			38,170		21,147
Total liabilities			66,956		40,307
Shareholders' equity					
Share capital	14(b)		117,877		113,351
Warrants	14(f)(g)		3,643		12,393
Equity component of convertible debentures	8		12,596		1,286
Contributed surplus			11,688		11,699
Accumulated other comprehensive loss (gain)			707		2,507
Deficit			(73,493)		(56,223)
Total shareholders' equity			73,018		85,013
Total liabilities and shareholders' equity		$	139,974	$	125,320

Going concern (note 2A), Commitments and contingencies (note 19), Subsequent events (note 20)

Approved on behalf of the Board of Directors:

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

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

SUNNIVA INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss (Unaudited)
For the three and six months ended June 30, 2019 and 2018
In thousands of Canadian dollars, except share amounts

	Notes	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
REVENUE		$ 5,349	$ 4,469	$ 19,539	$ 9,633
COST OF GOODS SOLD		4,565	1,681	13,496	4,752
GROSS MARGIN		784	2,788	6,042	4,881
EXPENSES					
Sales and marketing		2,528	101	3,333	226
General and administrative		6,463	4,853	11,726	10,286
Production facility costs		1,789	-	1,789	-
Share-based payments	14(h)	527	1,936	1,529	4,105
Amortization and depreciation		1,267	719	2,520	1,420
		12,574	7,609	20,897	16,037
Loss from operations		(11,790)	(4,821)	(14,855)	(11,156)
Other (income) expenses					
Fair value changes in derivative instruments	14(d)	-	(540)	455	328
Impairment on assets held-for-sale	5(a)	2,317	-	2,317	-
Gain on settlement of promissory note		-	-	-	(1,011)
Foreign exchange (gain) loss		21	183	154	126
Interest and other expenses		1,517	450	2,219	881
Loss before income taxes		(15,645)	(4,914)	(20,000)	(11,480)
Taxes					
Current tax		(299)	-	-	-
Deferred tax recovery		(371)	(4)	(1,569)	(302)
Net loss		(14,975)	(4,910)	(18,431)	(11,178)
Other comprehensive income:					
Items that may be subsequently reclassified to earnings					
Unrealized foreign exchange (gain) loss on translation of foreign operation		1,481	(605)	1,800	(1,009)
Comprehensive loss		$ (16,456)	$ (4,305)	$ (20,231)	$ (10,169)
Loss per share					
Basic and diluted loss per share (dollars)		$ (0.39)	$ (0.16)	$ (0.48)	$ (0.38)
Weighted average number of shares outstanding					
Basic and diluted		38,837,427	31,666,028	38,543,064	29,544,426

SUNNIVA INC.

Condensed Interim Consolidated Statements of Changes of Equity (Unaudited)

For the three and six months ended June 30, 2019 and 2018

In thousands of Canadian dollars, except share amounts

	Note	Number of shares	Share capital	Warrants	Equity component of convertible debentures	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at January 1, 2018		26,636,073	53,502	2,048	1,806	4,755	(263)	(27,549)	34,299
Common shares issued in bought deals	14(f)	2,850,900	27,796	-	-	-	-	-	27,796
Finders' warrants converted into shares	14(c)	349,770	1,640	-	-	(440)	-	-	1,200
Financing warrants converted into shares	14(d)	69,400	496	-	-	-	-	-	496
Convertible debentures converted into shares	8	317,045	1,412	-	(307)	-	-	-	1,105
FSD note converted into shares	14(b)	500,000	5,470	-	-	-	-	-	5,470
Stock options converted into common shares	14(h)	215,625	1,181	-	-	(448)	-	-	733
Share-based payments	14(h)	-	-	-	-	4,105	-	-	4,105
Warrants converted into shares	14(e)	1,091,259	7,973	(2,048)	-	-	-	-	5,028
Warrants issued in bought deal	14(f)	-	(4,495)	5,195	-	-	-	-	700
Share issuance costs	14(b)	-	(3,604)	-	-	-	-	-	(2,707)
Comprehensive loss for the period		-	-	-	-	-	1,009	(11,178)	(10,169)
Balance at June 30, 2018		32,030,072	91,371	5,195	1,499	7,972	746	(38,727)	68,056
Common shares issued in bought deals	14(f)	4,370,000	23,030	-	-	-	-	-	23,030
Convertible debentures converted into shares	8	231,134	1,110	-	(213)	-	-	-	897
Stock options converted into common shares	14(h)	15,625	94	-	-	(41)	-	-	53
Share-based payments	14(h)	-	-	-	-	4,142	-	-	4,142
Forfeited options	14(h)	-	-	-	-	(374)	-	374	-
Warrants issued in bought deals	14(f)	-	(4,459)	5,223	-	-	-	-	764
Acquisition of LTYR Logistics, LLC		1,436,949	3,692	-	-	-	-	-	3,692
Warrants Issued in LTYR Logistics, LLC Acquisition		-	-	1,975	-	-	-	-	1,975
Share issuance costs	14(b)	-	(1,487)	-	-	-	-	-	(1,487)
Comprehensive loss for the year		-	-	-	-	-	1,761	(17,870)	(16,109)
Balance at December 31, 2018		38,083,780	113,351	12,393	1,286	11,699	2,507	(56,223)	85,013
Financing warrants converted into shares	14(d)	430,600	2,272	-	-	-	-	-	2,272
Convertible debentures converted into shares	8	370,871	1,706	-	(361)	-	-	-	1,345
Settlement of convertible debenture interest	8	84,625	254	-	-	-	-	-	254
Equity component of convertible debentures	8	-	-	-	2,718	-	-	-	2,718
Warrants issued with unsecured promissory notes	14(g)	-	-	203	-	-	-	-	203
Stock options converted into common shares	14(h)	25,000	150	-	-	(66)	-	-	84
Share-based payments	14(h)	-	-	-	-	1,529	-	-	1,529
Forfeited options	14(h)	-	-	-	-	(1,161)	-	1,161	-
Expiry of finders' warrants	14(c)	-	313	-	-	(313)	-	-	-
Share issuance costs	14(b)	-	(169)	-	-	-	-	-	(169)
Comprehensive loss for the period		-	-	-	-	-	(1,800)	(18,431)	(20,231)
Balance at June 30, 2019		38,994,878	117,877	12,596	3,643	11,688	707	(73,493)	73,018

SUNNIVA INC.
Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
For the three and six months ended June 30, 2019 and 2018
In thousands of Canadian dollars

		Three months ended June 30,		Six months ended June 30,	
Cash provided by (used in) operating activities	**Notes:**	**2019**	**2018**	**2019**	**2018**
Loss for the period		$ (14,975)	$ (4,910)	$ (18,431)	$ (11,178)
Adjustments to reconcile net loss to net cash utilized in operating activities:					
Accretion	8, 9	456	171	642	347
Interest on finance liabilities	10	131	-	244	-
Bad debt expense	16	2,286	-	2,842	-
Change in provisions	12	-	190	(384)	103
Fair value changes in derivative instruments	14(d)	-	(540)	455	328
Share-based payments	14(h)	527	1,936	1,529	4,105
Impairment on assets held-for-sale	5(a)	2,317	-	2,317	-
Gain on settlement of promissory note		-	-	-	(1,011)
Amortization and depreciation	5, 6	1,533	719	3,061	1,420
Deferred tax recovery		(371)	(4)	(1,569)	(302)
Net cash utilized in operating activities		(8,096)	(2,438)	(9,294)	(6,188)
Changes in non-cash operating assets and liabilities:					
Cash included with assets held-for-sale	5(a)	(430)	-	(430)	-
Restricted cash		-	(337)	337	(337)
Accounts receivable		1,705	(822)	(5,508)	(1,201)
Inventory		3,292	(279)	(645)	105
Prepaid expenses		118	336	(277)	96
Accounts payable and accrued liabilities		2,135	(1,358)	725	1,497
Deferred revenue		405	(39)	216	(508)
Net cash used in operating activities		(871)	(4,937)	(14,876)	(6,536)
Cash used in investing activities					
Deposits on properties and leases		-	(101)	-	(1,666)
Purchase of businesses	7	(135)	-	(135)	-
Purchase of property, plant, and equipment	5	(4,090)	(16,432)	(12,292)	(20,133)
Net cash used in investing activities		(4,225)	(16,533)	(12,427)	(21,799)
Cash provided by (used in) financing activities					
Proceeds from short term loans	13	-	3,492	2,366	3,492
Net proceeds from issuance of promissory notes	9	5,293	-	5,293	-
Net proceeds from issuance of convertible debentures	8	-	-	16,333	-
Net proceeds from issuance of share capital	14(b)	34	5,446	3,021	27,773
Net proceeds from issuance of warrants		-	-	-	5,195
Net repayment of lease liabilities	10	(522)	-	(994)	-
Net repayment of promissory notes		-	-	-	(2,781)
Net cash provided by financing activities		4,805	8,938	26,019	33,679
Effect of foreign exchange on cash and cash equivalents		(245)	506	742	762
Increase (decrease) in cash		(536)	(12,026)	(542)	6,106
Cash and cash equivalents, beginning of period		2,135	29,556	2,141	11,424
Cash and cash equivalents, end of period		$ 1,599	$ 17,530	$ 1,599	$ 17,530

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 ("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 of America. The production, distribution, sale and use of cannabis and its derivatives is restricted by federal law in the United States despite being legalized for medical 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 condensed interim consolidated financial statements ("Interim Financial Statements") have been prepared on a going concern basis, which assumes that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and as at June 30, 2019 has not generated sufficient revenue to fund operations or planned capital expenditures. The Company has an accumulated deficit of $73,493 as at June 30, 2019 (December 31, 2018 - $56,223) and incurred net losses of $14,975 and $18,431 for the three and six months ended June 30, 2019 (three and six months ended June 30, 2018 - $4,910 and $11,178).

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 on terms acceptable to the Company. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Interim 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 June 30, 2019, the Company closed non-brokered private placements for gross proceeds of $9.23 million. See note 20.

B) STATEMENT OF COMPLIANCE

The Interim Financial Statements have been prepared in accordance with International Accounting Standards 34, *"Interim Financial Reporting"* ("IAS 34"), using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

2. BASIS OF PRESENTATION (Continued)

B) STATEMENT OF COMPLIANCE (Continued)

The Interim Financial Statements do not include all of the information required for full annual financial statements and therefore should be read in conjunction with the annual consolidated financial statements. The accounting policies and critical estimates applied by the Company in the Interim Financial Statements are the same as those applied in the Company's annual consolidated financial statements as at and for the year ended December 31, 2018.

The Interim Financial Statements were authorized for issuance by the Board of Directors on August 29, 2019.

C) BASIS OF MEASUREMENT

The Interim Financial Statements have been prepared on a historical cost basis except for certain financial instruments, assets held-for-sale, provisions and share based payments which were measured at fair value.

D) FUNCTION CURRENCY AND PRESENTATION CURRENCY

The Interim 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) BASIS OF CONSOLIDATION

The Interim Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, which are controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The list below sets out the principal subsidiaries of the Company. These subsidiaries engage in intercompany transactions, all of which are eliminated upon the preparation of the Interim Financial Statements:

Subsidiary	Functional Currency	Jurisdiction of Incorporation
Sunniva Medical Inc. ("SMI")	CAD	British Columbia, Canada
1167025 BC Ltd. ("116")	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
Coachella Distillation, LLC	USD	California, USA
420 Distribution, LLC	USD	California, USA
A1 Perez, LLC ("Perez")	USD	Delaware, USA
Sun Holdings Management, LLC	USD	Delaware, USA

2. BASIS OF PRESENTATION (Continued)

F) USE OF ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The preparation of the Interim 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 Interim 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.

(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 8, 9 and 14(d).

2. BASIS OF PRESENTATION (Continued)

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

(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.

(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.

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

2. BASIS OF PRESENTATION (Continued)

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

(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 Interim Financial Statements include:

- the determination of functional currency; and,
- the determination of the Company's ability to continue as a going concern.

3. ACCOUNTS RECEIVABLE

	June 30, 2019	December 31, 2018
Trade accounts receivable	$ 6,147	$ 2,955
Other receivables	400	926
	$ 6,547	$ 3,881

4. INVENTORY

Inventory consists of cannabis, cannabis oils and merchandise held for sale. As at June 30, 2019, the Company held 1,008 kg of dry cannabis (155 kg of which was finished goods and 853 kg held for future extract production and packaging) and 476 L of cannabis oils. 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 packaging) and 332 L of cannabis oils.

	June 30, 2019	December 31, 2018
Dry cannabis		
Held for packaging	$ 11	$ 785
Held for extraction	469	284
Finished goods	93	-
	573	1,069
Cannabis oils		
Finished goods	2,967	1,568
Work-in-process	384	475
	3,351	2,043
Non-cannabis products		
Product for resale (vaporizers and other)	273	239
Supplies and consumables	688	889
	$ 4,885	$ 4,240

The cost of inventory recognized as an expense and included in cost of sales for the three and six months ended June 30, 2019 amounted to $4,721 and $12,402 (three and six months ended June 30, 2018 – $968 and $2,899).

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

5. PROPERTY, PLANT AND EQUIPMENT

	Land	Construction in progress	Right-of-use assets	Equipment	Total
Costs					
Balance, January 1, 2018	$ -	$ 1,438	$ 14,250	$ 767	$ 16,455
Additions	8,345	35,951	-	4,061	48,357
Acquisition of LTYR	-	-	-	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
Additions	10	15,558	7,395	477	23,334
Assets classified as held-for-sale (a)	(7,957)	(11,384)	-	(122)	(19,463)
Impairment loss (a)	-	(2,317)	-	-	(2,317)
Foreign exchange	(17)	(984)	(744)	(228)	(1,973)
Balance, June 30, 2019	$ 396	$ 30,786	$ 21,905	$ 6,520	$ 59,607

	Land	Construction in progress	Right-of-use assets	Equipment	Total
Accumulated Depreciation					
Balance, January 1, 2018	$ -	$ -	$ -	$ 115	$ 115
Depreciation	-	-	-	722	722
Foreign exchange	-	-	-	27	27
Balance, December 31, 2018	-	-	-	864	864
Depreciation	-	-	853	744	1,597
Foreign exchange	-	-	(7)	(32)	(39)
Balance, June 30, 2019	$ -	$ -	$ 846	$ 1,576	$ 2,422
Net book value					
December 31, 2018	$ 8,360	$ 29,913	$ 15,254	$ 5,529	$ 59,056
June 30, 2019	$ 396	$ 30,786	$ 21,059	$ 4,944	$ 57,185

(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, $5,605 of materials were presented as assets held-for-sale at December 31, 2018. $3,363 of these materials were sold on January 24, 2019.

In June 2019, the Company entered into a share purchase agreement to sell SMI to CannaPharmaRx in an all cash transaction for $20,000 less certain outstanding liabilities. An impairment loss of $2,317 has been recognized in the six months ended June 30, 2019 to reduce the carrying amount of SMI's net assets to the recoverable amount at June 30, 2019. The transaction is expected to close in September 2019.

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

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) Assets held-for-sale (Continued)

The assets and associated liabilities classified as held-for-sale consist of the following:

Assets held-for-sale	
Cash and cash equivalents	$ 89
Restricted cash	341
Property, plant and equipment	21,705
Total assets held-for-sale	$ 22,135
Liabilities associated with assets held-for-sale	
Accounts payable and accrued liabilities	$ 3,008
Short term loans	3,492
Total liabilities associated with assets held-for-sale	$ 6,500

6. INTANGIBLE ASSETS AND GOODWILL

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Costs:						
Balance, January 1, 2018	$ 14,690	$ 4,252	$ 1,483	$ 5,502	$ 1,631	$ 27,558
Acquisition of LTYR	-	-	-	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
Acquisitions (note 7)	135	-	-	-	-	135
Foreign exchange	(617)	-	-	(132)	(72)	(821)
Balance, June 30, 2019	$ 14,587	$ 4,252	$ 1,483	$ 6,950	$ 1,702	$ 28,974

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
Accumulated amortization:						
Balance, January 1, 2018	$ -	$ 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
Amortization	-	355	74	746	289	1,464
Foreign exchange	-	-	-	(25)	(52)	(77)
Balance, June 30, 2019	$ -	$ 1,713	$ 358	$ 3,054	$ 1,371	$ 6,496

Net book value:

	Licenses	Software	Trademarks	Customer Relationships	Non-compete Agreement	Total
December 31, 2018	$ 15,069	$ 2,894	$ 1,199	$ 4,749	$ 640	$ 24,551
June 30, 2019	$ 14,587	$ 2,539	$ 1,125	$ 3,896	$ 331	$ 22,478

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

6. INTANGIBLE ASSETS AND GOODWILL (Continued)

	Goodwill
Balance, January 1, 2018	$ 18,505
Additions	4,168
Impairment	(653)
Foreign exchange	261
Balance, December 31, 2018	22,281
Foreign exchange	(342)
Balance, June 30, 2019	$ 21,939

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. As at June 30, 2019, no impairment indicators were identified and management concluded that there was no goodwill impairment.

7. ACQUISITIONS

In April 2019, CPL acquired an 80% membership interest in 420 Distribution, LLC (“420”) and Coachella Distillation, LLC (“Coachella”) from Group Two Investments, LLC for cash consideration of $135 (US$100). The acquisitions have been accounted for as asset acquisitions. The acquired assets consist of a temporary distribution licence in 420 and a temporary manufacturing licence in Coachella. The Company has filed annual licence applications and, upon receipt of those licenses, CPL will acquire the remaining 20% member interests for a nominal amount.

8. CONVERTIBLE DEBENTURE FINANCING

On February 12, 2019, the Company closed an initial tranche of a non-brokered offering of unsecured 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 convertible debentures bear interest at 10% per annum, payable annually and mature on February 15, 2021. The convertible debentures are convertible into Common Shares at a price of $5.27 per Common Share at the holder’s option. The equity portion was determined to be $3,724, less a deferred tax recovery of $1,006 for a net balance of $2,718. On closing, the Company paid finders’ fees of $793, of which $161 has been allocated to share issuance costs under equity.

In November and December 2017, the Company completed a private placement of unsecured convertible debentures in the aggregate principal amount of $12,135. The debentures bear interest at 8% per annum, payable annually and mature on December 31, 2020. The convertible debentures are convertible into Common Shares at a price of $4.60 per Common 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% for the convertible debentures issued in 2019 (17.5% for the debentures issued in 2017). 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)

8. CONVERTIBLE DEBENTURE FINANCING (Continued)

		Amount
Balance, January 1, 2018	$	9,495
Conversion of debentures		(1,877)
Accretion		701
Balance, December 31, 2018		8,319
Issued		18,330
Equity portion		(3,724)
Financing costs		(630)
Conversion of debentures		(1,309)
Accretion		562
Balance, June 30, 2019	$	21,548

During the three and six months ended June 30, 2019, $1,068 and $1,668 of convertible debentures were converted into a combined 370,871 Common Shares. This resulted in a reduction in convertible debenture financing of $836 and $1,306, a share capital transfer of $232 and $361 from the equity portion of convertible debentures and a decrease in accrued interest of $35 and $39, respectively. During the three and six months ended June 30, 2018, $760 and $1,412 of convertible debentures were converted into 171,585 and 317,045 Common Shares. This resulted in a reduction in convertible debenture financing of $595 and $1,106, a share capital transfer of $165 and $306 from the equity portion of convertible debentures and a decrease in accrued interest of $29 and $46, respectively.

9. UNSECURED PROMISSORY NOTES

On April 15, 2019, the Company closed a non-brokered private placement of 4.3 million units of the Company ("Units") for gross proceeds of $4.3 million. On April 24, 2019 the Company closed a second tranche of the non-brokered private placement of 1.21 million Units for gross proceeds of $1.2 million. In aggregate, a total of 5.51 million Units were issued, with each Unit consisting of a principal amount of unsecured promissory notes of the Company bearing interest at a rate of 10% per annum ("Promissory Notes") and 0.1897 Common Share purchase warrants 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 respective closing dates.

The liability component of the Units was valued using Company-specific interest rates assuming no warrants were issued. The effective interest rate was determined to be 20% for the unsecured promissory notes issued. The Promissory Notes are accreted to fair value over the term to maturity as a non-cash interest charge and the equity component is presented under warrants in shareholders' equity. The warrants were attributed a value of $203 and share issuance costs of $217 and $8 were allocated to the Promissory Notes and warrants, respectively.

		Amount
Balance, December 31, 2018	$	-
Issued		5,307
Financing costs		(217)
Accretion		80
Balance, June 30, 2019	$	5,170

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

10. LEASE LIABILITIES

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, 2019, 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. The terms of the leases are five years with monthly payments of rent expiring on September 30, 2021 and December 31, 2021, respectively.

The following is a maturity analysis of the undiscounted cash flows associated with the lease liabilities:

	Amount
Less than one year	$ 2,003
One to five years	4,610
More than five years	2,508
Total undiscounted lease payments	$ 9,121

The Company also leases production facilities in Cathedral City, California commencing in early 2020. This facility currently has a lease liability of $11,805, but the undiscounted lease payments are included under commitments in note 19 as the lease has not yet commenced.

Interest expense during the three and six months ended June 30, 2019 was $131 and $244 (nil for the three and six months ended June 30, 2018).

11. 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 $731 of customer deposits at June 30, 2019 (December 31, 2018 - $515).

12. PROVISIONS

	Onerous Lease	Contingent Consideration	Total
Balance, January 1, 2018	$ 143	$ 57	$ 200
Amortization of provision	(404)	-	(404)
Increase in provision	620	-	620
Foreign exchange	25	-	25
Balance, December 31, 2018	384	57	441
Transfer of provision	(384)	-	(384)
Balance, June 30, 2019	$ -	$ 57	$ 57

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 balance of $384 was transferred and offset against the right-of-use asset as part of the adoption of IFRS 16.

The contingent consideration is related to the acquisition of FSD and has an end date of December 31, 2019.

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

13. SHORT TERM LOANS

In January 2019, the Company entered into a $2,287 (US$1,711) promissory note to finance materials purchased for the greenhouse facility in Cathedral City, California. The promissory note is repayable on August 11, 2019 and has an interest rate of 10% per annum for the period of January 11, 2019 to June 11, 2019 and 25% per annum for the period of June 12, 2019 until settlement. The promissory note is expected to be settled in September 2019. The Company has the option to repay the principal at any time without additional fees. The promissory note is denominated in US dollars and has realized a foreign exchange loss of $38 and $79 during the three and six months ended June 30, 2019, bringing the balance to $2,366 at June 30, 2019.

In June 2018, the Company, through its subsidiary 116, 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 September 15, 2019 and has an interest rate of 5% per annum. This balance has been reclassified to Liabilities associated with assets held-for-sale (note 5(a)).

14. SHARE CAPITAL

(a) Authorized

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

(b) Issued and Outstanding – Common Shares

	Shares	Price	Total
Balance, January 1, 2018	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 convertible 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
Proceeds on conversion of financing warrants	430,600	$3.37 (US$2.55)	1,450
Conversion of financing warrants			822
Conversion of convertible debentures	370,871	$4.60	1,706
Settlement of interest on convertible debentures	84,625	$3.00	254
Proceeds on conversion of stock options	25,000	$3.40	85
Conversion of stock options			65
Expiry of finders' warrants			313
Share issuance costs			(169)
Balance, June 30, 2019	38,994,876		117,877

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

14. 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 upon payment of the exercise price.

Issue Date	Issued	Exercised	Expired	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 three and six months ended June 30, 2019, no warrants were exercised. For the three and six months ended June 30, 2018, 76,202 and 349,772 warrants were exercised for proceeds of $259 and $1,200, which is included in share capital along with a transfer of $96 and $439 from contributed surplus. The remaining finders' warrants expired in June 2019, which resulted in a transfer of $313 from share issuance costs to contributed surplus.

(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 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	(100,000)	-	US $2.55	May 1, 2019
December 29, 2016	300,000	(300,000)	-	US $2.55	July 19, 2019
	500,000	(500,000)	-		

During the three and six months ended June 30, 2019, nil and 430,600 of the financing warrants had been exercised for proceeds of nil and $1,450, which is included in share capital along with nil and $822 transferred from the warrant liability. During the three and six months ended June 30, 2018, nil and 69,400 of the financing warrants had been exercised for proceeds of nil and $219, which is included in share capital along with nil and $277 transferred from the warrant liability.

As at June 30, 2019, all financing warrants have been exercised.

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

14. SHARE CAPITAL (Continued)

(d) Financing warrants (Continued)

		Amount
Balance, January 1, 2018	$	2,098
Valuation adjustment		(1,546)
Conversion into common shares		(277)
Foreign exchange adjustment		117
Balance, December 31, 2018		392
Valuation adjustment		455
Conversion into Common Shares		(822)
Foreign exchange adjustment		(25)
Balance, June 30, 2019	$	-

(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 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 5). 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, 2018	$	2,048
Conversion into Common Shares		(2,048)
Balance, June 30, 2019 and December 31, 2018	$	-

14. 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 of the Company ("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 March Unit consisted of one Common Share and one-half of one Common Share purchase warrant (each whole warrant, a "March Warrant"). Each March Warrant entitles the holder thereof to acquire one Common Share at an exercise price per Common 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 June 30, 2019 with a weighted average remaining contractual life of 0.75 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 consisted of one Common Share and one-half of one Common Share purchase warrant (an "October Warrant"). Each October Warrant entitles the holder thereof to acquire one Common Share at an exercise price per Common 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:

14. 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 June 30, 2019 with a weighted average remaining contractual life of 1.3 years.

(g) Warrants issued in non-brokered private placement

In connection with the non-brokered private place in April 2019 (note 9), the Company issued 1,045,541 Common Share purchase warrants at an exercise price of $5.27 per warrant. The warrants were attributed a value of $203 and $8 of share issuance costs were allocated to these warrants. 1,045,541 of these warrants are outstanding as at June 30, 2019 with a weighted average remaining contractual life of 1.8 years.

(h) 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. One-sixteenth of the options issued vest every three months from the date of grant. There are 3,549,313 options that have not vested as at June 30, 2019. A summary of the status of the options outstanding is as follows:

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

14. SHARE CAPITAL (Continued)

(h) Share-based payments (Continued)

	Stock options	Weighted Average Exercise Price
Balance, January 1, 2018	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
Granted	990,000	3.12
Exercised	(25,000)	(3.40)
Forfeited	(524,374)	(5.66)
Expired	(233,313)	(5.39)
Balance, June 30, 2019	5,289,563	$ 4.50

The following table summarizes the stock options that remain outstanding as at June 30, 2019:

Exercise Price	Options Outstanding	Expiry Date	Remaining Contract Life	Options Exercisable
$3.40	1,575,000	April 2027	7.79	850,000
$3.40	100,000	June 2027	7.96	50,000
$6.75	50,000	July 2027	8.02	21,875
$6.75	50,000	July 2027	8.09	21,875
$6.75	120,000	August 2027	8.13	52,500
$6.75	50,000	August 2027	8.16	21,875
$6.75	118,750	October 2027	8.32	56,250
$6.75	75,000	December 2027	8.45	28,125
$6.75	550,000	January 2028	8.68	171,875
$8.11	250,000	June 2028	8.94	250,000
$7.81	293,188	June 2028	9.00	73,438
$6.73	100,000	September 2028	9.19	18,750
$3.30	967,625	December 2028	9.44	123,688
$3.12	990,000	June 2019	8.96	-
	5,289,563		8.59	1,740,251

The Company recognized a share-based compensation expense of $527 and $1,529 for the three and six months ended June 30, 2019 ($1,936 and $4,105 for the three and six months ended June 30, 2018). The total fair value of the options granted during the three and six months ended June 30, 2019 was $1,273 ($3,500 and $6,929 for the three and six months ended June 30, 2018).

14. SHARE CAPITAL (Continued)

(h) Share-based payments (Continued)

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 1.3%;
- expected life of 4.8 years;
- expected volatility of 75.0%; 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.

15. 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.

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 June 30, 2019, the Company is not subject to externally imposed capital requirements. There were no changes to the management of capital from the prior year.

16. 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 June 30, 2019 and December 31, 2018.

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

16. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

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:

Unsecured promissory notes	Level 3
Warrants	Level 3

There were no transfers between the levels during the periods ended June 30, 2019 nor December 31, 2018.

As at June 30, 2019 and December 31, 2018, 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 nil and $455 for the three and six months ended June 30, 2019 (decreased the net loss by $540 and increased the net loss by $328 for the three and six months ended June 30, 2018).

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

16. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(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 $2,286 and $2,842 was recognized for the three and six months ended June 30, 2019 (nil for the three and six months ended June 30, 2018).

As at June 30, 2019, the Company's aging of receivables was approximately as follows:

	At June 30, 2019	At December 31, 2018
0 – 30 days	$ 1,899	$ 2,217
31 – 60 days	138	566
61 – 90 days	544	93
91 days and over	3,966	1,005
	$ 6,547	$ 3,881

(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 19), the Company has the following contractual obligations:

As at June 30, 2019	Total	<1 Year	1 – 3 years	3 – 5 years
Accounts payable and accrued liabilities	$ 12,038	$ 12,038	$ -	$ -
Short term loans	2,366	2,366	-	-
Unsecured promissory notes	5,170	5,170	-	-
Convertible debenture financing	21,548	-	21,548	-
	$ 41,122	$ 19,574	$ 21,548	$ -

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

16. FINANCIAL INSTRUMENTS AND RISK EXPOSURES (Continued)

(c) Liquidity risk (Continued):

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	$ -

(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 June 30, 2019, including cash, accounts receivable and accounts payable, etc., would result in an increase or decrease of approximately $58 (December 31, 2018 - $330) to the net loss and comprehensive loss for the three months ended June 30, 2019.

(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.

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

17. RELATED PARTY TRANSACTIONS

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

(a) Compensation of key management personnel

	Three months ended June 30, 2019	Three months ended June 30, 2018
Salaries and consulting fees	$ 830	$ 676
Share-based payments	403	1,193
	$ 1,234	$ 1,869

	Six months ended June 30, 2019	Six months ended June 30, 2018
Salaries and consulting fees	$ 1,420	$ 1,536
Share-based payments	1,027	2,144
	$ 2,447	$ 3,680

Amounts due to related parties:	June 30, 2019	December 31, 2018
Salaries and consulting fees	$ 499	$ 135

(b) Lease Guarantee:

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

(c) Other related party

During the three and six months ended June 30, 2019, the Company paid $87 and $221 to a legal firm which is associated with a director ($251 and $351 for the three and six months ended June 30, 2018). As at June 30, 2019, the Company owes the legal firm $137 (December 31, 2018 - $9).

During the three and six months ended June 30, 2019, the Company paid nil and $10 to a consulting firm which is associated with a director ($nil for the three and six months ended June 30, 2018). As at June 30, 2019, the Company owes the consulting firm $10 (December 31, 2018 - $55).

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 (the "Sunniva California Campus"). 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 14(e)). These warrants were exercised on April 12, 2018. The Company has an outstanding promissory note of $2,287 (US$1,711) with this related party for the greenhouse facility in Cathedral City, California (note 13).

The Company has an agreement with entities owned or controlled by a former 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 were used at the Sunniva California Campus. During the three and six months ended June 30, 2019, the Company paid nil towards this agreement ($232 for the three and six months ended June 30, 2018). This agreement terminated in April 2019.

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

18. 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.

Three months ended June 30, 2019	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 1,845	$ 2,008	$ 1,496	$ -	$ 5,349
Gross margin	1,130	344	(690)	-	784
Income (loss) from operations	(1,075)	(39)	(5,746)	(4,930)	(11,790)
Net income (loss)	$ (816)	$ (41)	$ (5,860)	$ (8,258)	$ (14,975)

Three months ended June 30, 2018	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 3,183	$ 1,286	$ -	$ -	$ 4,469
Gross margin	2,617	171	-	-	2,788
Income (loss) from operations	182	(40)	-	(4,963)	(4,821)
Net income (loss)	127	(40)	-	(4,997)	(4,910)

Six months ended June 30, 2019	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 3,671	$ 4,362	$ 11,505	$ -	$ 19,538
Gross margin	2,331	697	3,014	-	6,042
Income (loss) from operations	(2,124)	(530)	(2,700)	(9,501)	(14,855)
Net income (loss)	$ (1,650)	$ (533)	$ (2,819)	$ (13,429)	$ (18,431)

Six months ended June 30, 2018	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Revenue	$ 5,835	$ 3,798	$ -	$ -	$ 9,633
Gross margin	4,286	595	-	-	4,881
Income (loss) from operations	(983)	201	-	(10,374)	(11,156)
Net income (loss)	$ (685)	$ 199	$ -	$ (10,692)	$ (11,178)

As at June 30, 2019	Patient Counselling	Merchandising	Cultivation & Extraction	Corporate	Total
Total assets	$ 23,212	$ 2,540	$ 79,880	$ 34,342	$ 139,974
Total liabilities	$ 3,616	$ 1,366	$ 18,426	$ 43,548	$ 66,956
As at December 31, 2018					
Total assets	$ 22,903	$ 2,820	$ 62,804	$ 36,793	$ 125,320
Total liabilities	$ 1,959	$ 1,524	$ 17,576	$ 19,248	$ 40,307

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

19. COMMITMENTS AND CONTINGENCIES

(a) Lease commitments

The Company leases production facilities in Cathedral City, California commencing in early 2020. The term is 15 years with three options to extend by 5 years each.

The Company is committed under a lease agreement with respect to an NHS clinic located in Calgary, Alberta expiring on September 30, 2019.

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

	Cathedral City	Others	Total
2019	$ -	$ 12	$ 12
2020	15,185	-	15,185
2021	12,170	-	12,170
2022	12,170	-	12,170
Thereafter	158,792	-	158,792
	$ 198,317	$ 12	$ 198,329

(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 commenced, and the Company will defend its position. No amount has been recorded in the Interim Financial Statements since an amount cannot be reliably measured at this point.

20. 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 the Interim Financial Statements in accordance with IAS 10, *Events After the Reporting Period*.

(a) On August 1, 2019, the Company closed a non-brokered private placement of 5.77 million units ("August Units") of the Company for gross proceeds of $5.77 million. On August 29, 2019 the Company closed a second tranche of the August Unit Offering of 1.46 million August Units for gross proceeds of approximately $1.46 million (US$1.1 million). In aggregate, a total of 7.23 million August Units were issued, with each August Unit consisting of a principal amount of Promissory Notes bearing interest at a rate of 10% per annum and 0.40 Warrants at an exercise price of $2.50 per Warrant. The Promissory Notes mature on 6 months from the respective closing dates.

(b) On August 28, 2019, the Company closed a non-brokered private placement of 1.5 million units ("Subsequent August Units") of the Company for gross proceeds of $2.0 million (US$1.5 million). Each Subsequent August Unit consists of a principal amount of Promissory Notes bearing interest at a rate of 10% per annum and 1.11 Warrants at an exercise price of $1.20 (US$0.90) per Warrant. The Company has signed an agreement to close a second tranche of 6.0 million Subsequent August Units for gross proceeds of $8.0 million (US$6.0 million) on or before September 30, 2019. The Promissory Notes mature 18 months from the respective closing dates.