This management discussion and analysis ("MD&A") of the financial condition and results of operations of Sunniva Inc. (the "Company") is for the three and six months ended June 30, 2019 and 2018. It is supplemental to, and should be read in conjunction with, the unaudited Consolidated Financial Statements of the Company and the accompanying notes for the three and six months ended June 30, 2019 and 2018 (the "Consolidated Financial Statements").

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All amounts presented herein are stated in Canadian dollars, unless otherwise indicated. Additional information regarding the Company is available on our website at www.sunniva.com or through the SEDAR website at www.sedar.com.

This MD&A is prepared as of and dated August 29, 2019.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Some of the statements contained in this MD&A are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Forward-looking statements may be identified by such terms as "believes", "expects", "anticipates", "estimates", "may", "could", "will" and similar expressions. Since forward-looking statements are based on assumptions and address future events and conditions, by their very nature they involve inherent risks and uncertainties.

Although the Company believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate. Forward-looking information or statements in this MD&A include, but are not limited to: Mr. Barker's expected interest in the Build to Suit Lease (as defined below); the expected production at the Sunniva California Campus (as defined below), including the additional estimated production capacity to be realized from the Sunniva California Campus; the expected capital costs and timing of completion of the Sunniva California Campus in early 2020, including the estimated capital expenditure required for the risk mitigation systems and the timing for receipt of the Certificate of Occupancy for phase one of the Sunniva California Campus; the Company's belief that changes to the project management team and the engagement of a construction consulting firm will greatly influence the ability to achieve the estimated time for completion of the Sunniva California Campus; the timing of completion of the Sunniva onsite dispensary expected to be operational following the initial production from the Sunniva California Campus; the suspension of development plans for, and the anticipated timing of sale of, the Sunniva Canada Campus (as defined below); the anticipated timing of completion and sales proceeds from the SMI Transaction (as defined below); the Company's review of strategic initiatives for the remainder of its Canadian assets and the Company's focus on US operations; the estimate that up to 30% of all product from Sunniva California Campus will be used in the Extraction Facility (as defined below) for higher margin extracted products and all products will be free from the pesticides commonly used within today's industry; the Company's expectations with respect to the federal and state regulatory regime for cannabis in the United States, and the Company's plans to ensure compliance with that regime; the expectation that the commercial property leased by the entities located in Coachella, California acquired by CPL (as defined below) will expand the Company's distribution and packaging capabilities in California; the Company's ability to convert its outstanding Convertible Debentures (as defined below) into Common Shares (as defined below); the Company's plans and ability to obtain additional funds through the sale of equity or debt commitments for operations and planned growth; the Company's anticipated production at the Extraction Facility; the Company's plans related to the class action litigation involving NHS; the expected use of funds from recent financings; and the Company's policy regarding dividends, are "forward-looking statements".

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors including: receipt of licenses and permits for the Sunniva California Campus; the legal status of cannabis cultivation, distribution and sales in the United States; changes in general economic conditions and conditions in the financial markets; litigation, legislative, environmental and other judicial, regulatory, political and competitive developments; technological and operational difficulties encountered in connection with the Company's activities; availability of debt or equity financing; receipt of shareholder and regulatory approvals for potential transactions; and changing foreign exchange rates and other matters discussed in this MD&A.

This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. These and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. Further information regarding these and other factors, which may cause results to differ materially from those projected in forward-looking statements, will be included in the filings by the Company with securities regulatory authorities. As required by securities legislation applicable to public companies, it is the Company's policy to update, from time-to-time, forward-looking information in its periodic management discussions and analyses and provide updates on its activities to the public through the filing and dissemination of news releases.

COMPANY OVERVIEW

The Company was incorporated pursuant to the *Canada Business Corporations Act* (the "CBCA") on August 11, 2014. The Company's articles of incorporation were amended on August 14, 2017 to change its name from Sunniva Holdings Corp. to Sunniva Inc. and to remove certain transfer restrictions with respect to the Company's common shares (the "Common Shares"). The Common Shares are listed on the Canadian Securities Exchange under the symbol "SNN" and on the OTCQB under the symbol "SNNVF".

The Company's registered office is located at 1200-200 Burrard Street, Vancouver, British Columbia, V7X 1T2.

As of June 30, 2019, the Company has sixteen wholly-owned subsidiaries. The Company has five wholly-owned Canadian subsidiaries: Sunniva Medical Inc. ("SMI"), Natural Health Services Ltd. ("NHS"), 1964433 Alberta Ltd. ("196"), 1167025 B.C. Ltd. ("116") and 1111035 Canada Inc. ("111"). The Company, SMI and 111 were incorporated under the CBCA. NHS and 196 were incorporated under the *Business Corporations Act* (Alberta) and 116 was incorporated under the *Business Corporations Act* (British Columbia). The Company, SMI, 111 and 116 are headquartered in Carlsbad, California. NHS and 196 are headquartered in Calgary, Alberta.

Additionally, the Company has eleven wholly-owned United States subsidiaries: Sun Holdings Management, LLC (Delaware), CP Logistics, LLC (North Carolina) ("CPL"), Full-Scale Distributors, LLC (Florida) ("FSD"), LTYR Logistics, LLC (California) ("LTYR"), Sunniva Full-Scale Distributors Corporation (California), Sun CA Holdings, Inc. (California) ("SCH"), A1 Perez, LLC (Delaware), Sunny People, LLC (California), 420 Distribution, LLC (California), Coachella Distillation, LLC (California) and Sun Ramon, LLC (California).

KEY DEVELOPMENTS IN THE SECOND QUARTER OF 2019

- On April 1, 2019, the Genetics Agreement which provided CPL access to cannabis genetic and propagating materials produced at a licensed cannabis cultivation facility in Oakland, California (the "Genetics Agreement") terminated in accordance with its terms. Prior to the expiration of the Genetics Agreement, CPL moved the propagating materials and genetics to another facility in California.

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

- On April 25, 2019, the Company, through CPL, acquired a majority interest in two licenced cannabis companies in California, 420 Distribution, LLC and Coachella Distillation, LLC. The entities hold existing leases for commercial property located in Coachella, California, which will be used to expand the Company's packaging and distribution capabilities in California.

- On May 22, 2019, Leith Pedersen, President, Chief Strategy Officer and Co-Founder of the Company resigned as an officer and a director for personal reasons. His responsibilities have been absorbed by the senior leadership team of the Company.

- On May 31, 2019, the Company announced the appointment of David Lyle as Chief Financial Officer, effective June 3, 2019. Mr. Lyle previously served as Chief Financial Officer at Maxwell Technologies, Inc. ("Maxwell") (NASDAQ:MXWL) a global leader in the development and manufacture of innovative, cost-effective energy storage and power delivery solutions. Maxwell was recently acquired by Tesla, Inc.

- On June 11, 2019, the Company entered into a share purchase agreement to sell SMI to CannaPharmaRx, Inc. in an all-cash transaction for $20.0 million less certain outstanding liabilities in SMI (the "SMI Transaction").

RECENT DEVELOPMENTS SUBSEQUENT TO JUNE 30, 2019

- On July 18, 2019, the Company announced the receipt of a non-refundable payment of deposit in the amount of $1.0 million under the SMI Transaction. The SMI Transaction is expected to close in September 2019 for net proceeds of $16.2 million. The closing date has been postponed from the initial expectation of August 2019 to allow both parties to fulfill the necessary closing conditions.

- On July 22, 2019, the Company announced Kevin Wilkerson has been promoted to President of Sunniva Inc., the corporate parent entity. Mr. Wilkerson will also continue his role as President and Chief Executive Officer of SCH, the Company's main US subsidiary.

- On August 1, 2019, the Company closed a non-brokered private placement (the "August Unit Offering") 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 6 months from the respective closing dates.

- On August 28, 2019, the Company closed a non-brokered private placement (the "Subsequent August Unit Offering") 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 September 30, 2019. The Promissory Notes mature on 18 months from the respective closing dates.

- The Company has been prioritizing available funding towards the completion of the Sunniva California Campus and as a result has reduced the cash used for purchase of biomass for use in the Extraction Facility and the purchase of 3rd party flower to be used in branded cannabis sales. As a result, the previously announced revenue estimate of US$55-$60 million from sales of Sunniva branded products in California manufactured in the Extraction Facility and from purchasing compliant third-party flower from strategic relationships that is packaged, branded, distributed and sold can no longer be relied upon.

GOING CONCERN

The Company is considered a development stage company and is currently seeking additional capital, mergers, acquisitions, joint ventures, partnerships and other business arrangements to expand its product offering in the cannabis industry and grow its revenue.

The 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 June 30, 2019 has not generated sufficient revenue to fund operations or planned capital expenditures. As at June 30, 2019, the Company has an accumulated deficit of $73.5 million and incurred a net loss of $15.0 million and $18.4 million for the three and six months ended June 30, 2019.

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 outstanding Convertible Debentures into Common 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.

INTERIM MD&A – QUARTERLY HIGHLIGHTS

The following table sets forth selected financial information of the Company for the three and six months ended June 30, 2019:

		For the three months ended June 30				
(000s)		**2019**		**2018**		**2017**
Total revenue	$	5,349	$	4,469	$	3,280
Gross margin		784		2,788		1,236
Net loss		(14,975)		(4,910)		(10,744)
Comprehensive loss		(16,456)		(4,305)		(10,935)
Basic and diluted loss per share		(0.39)		(0.16)		(0.42)

(000s)	For the six months ended June 30 2019	2018	2017
Total revenue	$ 19,539	$ 9,633	$ 5,654
Gross margin	6,042	4,881	2,451
Net loss	(18,431)	(11,178)	(11,706)
Comprehensive loss	(20,231)	(10,169)	(11,770)
Basic and diluted loss per share	(0.48)	(0.38)	(0.48)

(000s)	June 30, 2019	As at December 31, 2018	December 31, 2017
Current assets	$ 37,133	$ 17,894	$ 14,532
Total assets	139,974	125,320	74,907
Current liabilities	28,786	19,160	15,739
Total liabilities	66,956	40,307	40,608
Shareholders' equity	73,018	85,013	34,299

The tables below summarize the Company's cash flows for the three and six months ended June 30, 2019
:

(000s)	For the three months ended June 30 2019	2018	2017
Net cash provided (used by)			
Operating activities	$ (871)	$ (4,937)	$ (1,404)
Investing activities	(4,225)	(16,533)	(5,472)
Financing activities	4,805	8,938	5,262
Effect of foreign exchange on cash	(245)	506	16
Decrease in cash	(536)	(12,026)	(1,598)
Cash and cash equivalents beginning of period	2,135	29,556	5,899
Cash and cash equivalents end of period	**$ 1,599**	**$ 17,530**	**$ 4,301**

(000s)	For the six months ended June 30 2019	2018	2017
Net cash provided (used in)			
Operating activities	$ (14,876)	$ (6,536)	$ (2,791)
Investing activities	(12,427)	(21,799)	(8,279)
Financing activities	26,019	33,679	5,794
Effect of foreign exchange on cash	742	762	(36)
Increase (decrease) in cash	(542)	6,106	(5,312)
Cash and cash equivalents beginning of period	2,141	11,424	9,613
Cash and cash equivalents end of period	**$ 1,599**	**$ 17,530**	**$ 4,301**

The Company did not declare any dividends in the three or six months ended June 30, 2019 and does not anticipate doing so in the foreseeable future.

Cash and cash equivalents as at June 30, 2019 was $1.6 million, which is a slight decrease from $2.1 million at December 31, 2018. The funds raised in the six months ended June 30, 2019 were used primarily for capital investment at the Sunniva California Campus and funding US operations.

For the three and six months ended June 30, 2019, the Company also recognized share-based payment expenses of $0.5 million and $1.5 million related to the issue of stock options. The total fair value of the options granted during the three and six months ended June 30, 2019 was $1.3 million.

Summary of Quarterly Results

The following table sets out the quarterly financial information for each of the last eight quarters:

(000s)	Q2'19	Q1'19	Q4'18	Q3'18	Q2'18	Q1'18	Q4'17	Q3'17
Total revenue	$ 5,349	$ 14,190	$ 5,417	$ 3,739	$ 4,469	$ 5,164	$ 5,856	$ 4,562
Cost of goods sold	4,565	8,931	4,604	1,634	1,681	3,071	3,352	2,834
Selling, general and administrative	12,574	8,322	10,419	9,474	7,609	8,428	5,854	9,060
Research and development	-	-	-	-	-	-	110	-
Loss from operations	(11,790)	(3,063)	(9,606)	(7,369)	(4,821)	(6,335)	(3,460)	(7,332)
Fair value (gain) loss on derivative liability	-	455	(782)	(1,078)	(540)	868	(2,759)	(551)
Foreign exchange (gain) loss	21	133	102	(77)	183	(58)	390	(499)
Gain on settlement of promissory note	-	-	-	-	-	(1,011)	-	-
Impairment losses	2,317	-	1,963	-	-	-	-	-
Interest and other expenses	1,517	702	388	385	450	432	271	31
Income tax (recovery) expense	(670)	(899)	(188)	182	(4)	(298)	(1,202)	(366)
Net loss	(14,975)	(3,454)	(11,089)	(6,781)	(4,910)	(6,268)	(160)	(5,947)
Basic loss per share	(0.33)	(0.09)	(0.31)	(0.21)	(0.16)	(0.23)	(0.01)	(0.26)

Summary of Results

For the three and six months ended June 30, 2019, the Company generated $5.3 million and $19.5 million in revenue as compared to $4.5 million and $9.6 million during the three and six months ended June 30, 2018. CPL contributed $1.5 million and $11.5 million, NHS contributed $1.8 million and $3.7 million while FSD contributed $2.0 million and $4.3 million over these same periods. Net loss for the three and six months ended June 30, 2019 was $15.0 million and $18.4 million as compared to $4.9 million and $11.2 million during the three and six months ended June 30, 2018.

The key components contributing to the change in net loss from the three and six months ended June 30, 2019 compared to the prior comparative periods comprise the following:

- Revenue increased by $0.9 million and $9.9 million during the three and six months ended June 30, 2019. CPL revenue increased by $1.5 million and $11.5 million over the comparative periods due to increased sales from the extraction business line and the commencement of CPL's packaging business line. FSD revenue increased by $0.7 million and $0.6 million over these comparative periods due to an increased customer base year over year. NHS revenue decreased by $1.3 million and $2.2 million over these comparative periods due to a decrease in the number of doctors.

- Gross margin decreased by $2.0 million and increased by $1.2 million during the three and six months ended June 30, 2019. For the three months ended June 30, 2019, CPL's margins were reduced in an effort to increase operating cash flows that were tied up in inventory. Furthermore, margins were negatively impacted by the decrease in NHS revenue, which consistently provides the highest margin of all the Company's revenue streams. Gross margin increased for the six months ended June 30, 2019 due to the high level of sales in CPL in the first quarter of fiscal 2019. On a percentage basis, gross margin decreased from 62% and 51% in the three and six months ended June 30, 2018 to 1% and 31% in the three and six months ended June 30, 2019 due to the reasons discussed above.

- Selling, general and administration expenses increased by $4.0 million and $4.5 million during the three and six months ended June 30, 2019. The increase is due to the continued expansion of US operations, while incurring additional costs in relocating the corporate functions from Vancouver, British Columbia to Carlsbad, California. In addition, CPL recognized a provision on accounts receivable of $2.3 million and $2.8 million for the three and six months ended June 30, 2019.

- Production facility costs of $1.8 million were incurred for the three and six months ended June 30, 2019. The Company had no such costs in the comparative periods.

- Share-based payment expenses decreased from $1.9 million and $4.1 million in the three and six months ended June 30, 2018 to $0.5 million and $1.5 million in the three and six months ended June 30, 2019. The decrease is due to several option holders departing with the corporate transition and the accounting under IFRS whereas the recognition of share-based payment expense decreases as options continue to vest.

- Fair value changes in derivative instruments due to the revaluation of secured convertible promissory notes and warrants increased from a gain of $0.5 million and a loss of $0.3 for the three and six months ended June 30, 2018 to no impact and a loss of $0.5 million for the three and six months ended June 30, 2019. This was due to all derivative instruments being settled in early 2019.

- Amortization and depreciation expense increased by $0.5 and $1.1 million during the three and six months ended June 30, 2019 due to a higher cost base of the assets in 2019.

Discussion of Operations

CPL entered into a build to suit lease agreement (the "Build to Suit Lease") with Sunniva Production Campus, LLC ("SPCL") on October 20, 2017 for the construction of the Sunniva California Campus in Cathedral City, California (the "Sunniva California Campus"), which is owned by SPCL, an entity related to Barker Pacific Group, Inc. ("BPG").

Construction of phase one of the 325,000 square foot Sunniva California Campus has experienced further delays, and as a result will not be operational within the previously announced Q3 2019 timeframe. The Company now expects to receive the Certificate of Occupancy for the Sunniva California Campus in early 2020, at which time the Sunniva California Campus will become operational and the Company will commence the onboarding of genetics and plants. The delay in phase one construction of the Sunniva California Campus is caused principally by a delay in connection to permanent power at the facility. This will push out the timeframe for the Company to commence the required commissioning and testing of the Sunniva California Campus until late in 2019. The Company has also determined that as part of its risk mitigation strategy for the facility, additional back-up power and segmenting of cooling capacity will significantly reduce the risk of loss of crop due to power failure. The current estimate of the total capital required for these risk mitigation systems is approximately US$25 million. The Company and BPG are in discussions to determine the allocation of these costs. The additional improvements to the facility will be completed concurrently with the commissioning and commencement of operations in early 2020.

As a result of the delays associated with the Sunniva California Campus, the Company has reorganized the project management team and has engaged an internationally recognized construction consulting firm to manage the project through the final stages of construction and commissioning of the facility. The Company believes that these changes will greatly influence the ability to achieve the revised estimated time to completion.

It is estimated that up to 30% of all production from the Sunniva California Campus will be used in the Extraction Facility for higher margin extracted products and all products will be produced free from the pesticides commonly used within today's industry. Total flower production capacity of phase one is expected to be 50,000 kg (50 million grams) per year of premium indoor cannabis at capacity. Planned automation will move the plants through their life cycle and is expected to allow the Sunniva California Campus to deliver a continuous daily harvest. Phase two is planned to be an additional 164,000 square foot glasshouse for a total of 489,000 square feet of state-of-the-art, purpose-built facilities, capable of producing 72,500 kg (72.5 million grams) per year of dried flower at peak capacity. The Sunniva onsite dispensary will showcase the Sunniva brands and is expected to be completed and operational following the initial production harvest from the glasshouse.

The Sunniva California Campus has an estimated project budget of approximately US$120 million, which has increased from the previously reported budget of US$95 million and up from the original contractual lease estimate of US$54.0 million due primarily to additional costs expected for the temperature control and lighting systems and additional infrastructure on phase two as well as the addition of certain components associated with the enhanced risk mitigation systems. To date the Company has contributed approximately US$20 million to date and is committed to spending an additional US$10 million to complete its original budget obligations. The Company and BPG are in discussions to determine the allocation of the incremental costs for the risk mitigation systems.

CPL's extraction suite in Cathedral City, California is licenced for both volatile and non-volatile extraction processes (the "Extraction Facility") and became operational in July 2018. The Extraction Facility has the capacity to process 500 lbs of biomass daily, which could produce up to an estimated 180,000 grams of distillate and 125,000 grams of live resin extracts per month. The Extraction Facility is currently producing high quality distillate and premium concentrates for the Sunniva branded product lines and wholesale market.

The Company is in the process of selling SMI, which owns the Sunniva Canada Campus at Okanagan Falls, B.C. (the "Sunniva Canada Campus") and the transaction is expected to close in September 2019. The Company continues its review of strategic initiatives for the remainder of its Canadian assets as the Company focuses efforts on its US operations.

The following table, dated as of June 30, 2019, presents a quantification of the Company's balance sheet and operating statement exposure to U.S. marijuana-related activities, compared with Canadian activities and U.S. non-marijuana-related activities.

000s	Amount ($)	Canadian activities (%)	US marijuana-related activities (%)	US Non-marijuana-related activities (%)
Cash	1,599	30	64	6
Accounts receivable	6,547	23	48	29
Inventory	4,885	1	95	4
Prepaids	1,967	18	50	32
Assets held-for-sale	22,135	100	0	0
Deposits	1,239	7	92	1
PP&E	57,185	8	88	4
Intangibles	22,478	44	33	23
Goodwill	21,939	66	14	20
Total assets	139,974	36	53	11

000s	Amount ($)	Canadian activities (%)	US marijuana-related activities (%)	US Non-marijuana-related activities (%)
Accounts payable	12,038	56	30	14
Deferred revenue	731	0	0	100
Short term loans	2,366	0	100	0
Provisions	57	100	0	0
Unsecured promissory notes	5,170	100	0	0
Liabilities held-for-sale	6,500	100	0	0
Convertible debenture	21,548	100	0	0
Lease liabilities	18,161	22	65	13
Deferred income taxes	385	100	0	0
Total liabilities	66,956	65	28	7
For the three months ended June 30, 2019				
Revenue	5,349	34	28	38
Gross margin (loss)	23	77	0	23
SG&A	12,574	63	13	24
Other expenses (income)	3,855	98	0	2
Current tax expense	(299)	0	100	0
Deferred tax recovery	(371)	100	0	0
For the six months ended June 30, 2019				
Revenue	19,538	19	59	22
Gross margin (loss)	6,042	55	29	16
SG&A	20,897	60	13	27
Other expenses (income)	5,145	98	0	2
Current tax expense	-	0	100	0
Deferred tax recovery	(1,569)	100	0	0

Liquidity

As at June 30, 2019 the Company had $37.1 million in current assets (December 31, 2018 - $17.9 million) and had a working capital surplus of $8.3 million compared to a deficit of $1.3 million at December 31, 2018.

During the second quarter of fiscal 2019, the Company received $5.3 million from the issuances of Promissory Notes. Non-cash equity transactions during the second quarter of fiscal 2019 included $1.1 million of Convertible Debenture conversions and an equity reserve transfer of $313,000 due to the expiry of finders' warrants. As at June 30, 2019, the Company's net share capital was $117.9 million compared to $113.4 million as at December 31, 2018.

The Company used the funds raised in the second quarter of fiscal 2019 to fund approximately $4.4 million to advance the Sunniva California Campus.

As at June 30, 2019, the Company has 5,289,563 stock options outstanding pursuant to the Company's stock option plan. The Company recorded a share-based payment expense of $0.5 million and $1.5 million in the three and six months ended June 30, 2019 ($1.9 million and $4.1 million in the three and six months ended June 30, 2018).

(In Canadian Dollars)

	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

As at June 30, 2019, the Company had 5,424,464 Warrants and 433,254 compensation options outstanding which, upon exercise, each convert into one Common Share. The Warrants outstanding in both Canadian and US denominated currencies were as follows:

Warrants and Compensation Options issued in the March 2018 Offering

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
March 27, 2018	1,425,450	-	1,425,450	$12.50	March 27, 2020
March 27, 2018	50,000	-	50,000	$12.50	March 27, 2020
March 27, 2018	171,054	-	171,054	$9.75	March 27, 2020
	1,646,504	-	1,646,504		

Warrants and Compensation Options issued in the October 2018 Offering

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
October 12, 2018	2,185,000	-	2,185,000	$6.85	October 12, 2020
October 12, 2018	262,200	-	262,200	$5.27	October 12, 2020
	2,447,200	-	2,447,200		

Warrants issued in LTYR acquisition

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
December 28, 2018	718,473	-	718,473	$3.71	December 28, 2020

Warrants issued in non-brokered private placement

Issue Date	Issued	Exercised	Outstanding	Exercise Price	Expiry Date
April 15, 2019	815,939	-	815,939	$5.27	April 15, 2021
April 24, 2019	229,602	-	229,602	$5.27	April 24, 2021
	1,045,541	-	1,045,541		

The tables above are not required under Form 51-102F1 but are included as additional information.

The Company is dependent on raising additional equity or debt to carry on its business operations for the next 12 months. The Company has $1.6 million in cash and cash equivalents as at June 30, 2019, but there is no guarantee that the Company will be able to raise the additional equity or debt required to fund its ongoing operations and complete its planned capital expenditures.

Capital Resources

As at June 30, 2019, the Company had the following consolidated lease commitments:

(000s)	Cathedral City	Others	Total
2019	$ 3,015	$ 12	$ 3,027
2020	12,170	-	12,170
2021	12,170	-	12,170
2022	12,170	-	12,170
Thereafter	158,792	-	158,792
	$ 198,317	$ 12	$ 198,329

The lease commitments include properties in Goleta (the "Goleta Facility Lease") and Cathedral City, California; medical clinics, office space and education centres for NHS in Alberta, Saskatchewan, Manitoba and Ontario; and a commitment for the Company's corporate offices in Vancouver, British Columbia and Calgary, Alberta.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Transactions between Related Parties

For the three and six months ended June 30, 2019, the Company's related parties, as defined by IAS 24, Related Party Disclosures, include the Company's controlling shareholders, directors, executive officers, key management personnel, and enterprises which are controlled by these individuals.

Related Party	Relationship
Anthony Holler, Chairman, CEO and Director	Director/Management
Luke Stanton, Director	Director/Consultant/US Legal
Michael Barker, Director	Director
Todd Patrick, Director	Independent Director
Norm Mayr, Director	Independent Director
Ian Webb, Director	Independent Director
Kevin Wilkerson, President and CEO of SCH	Management
Dave Lyle, Chief Financial Officer	Management
Duncan Gordon, Chief Operating Officer	Management
Leith Pedersen, Former President, Chief Strategy Officer and Director	Former Director/Management
David Negus, Former Chief Financial Officer	Former Management
Ben Rootman, Former General Counsel and Corporate Secretary	Former Management
Daniel Vass, Former President of NHS and Director	Former Management
Vinayak Shastry, Former President of U.S. Operations	Former Management

The Company considers the executive officers and directors as the key management of the Company.

Total compensation of key Company personnel for the three and six months ended June 30, 2019 and 2018 are as follows:

(000s)	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

(000s)	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 is as follows as at:

	June 30, 2019	December 31, 2018
Consulting fees and wages	$ 499	$ 135

The non-management directors have received in aggregate $0.2 million and $0.5 million in share-based compensation during the three and six months ended June 30, 2019 ($0.7 million and $0.9 million in the three and six months ended June 30, 2018).

Except as listed below, no related party had any material interest, direct or indirect, in any transaction which has materially affected or would materially affect the Company or any of its subsidiaries.

Dr. Anthony Holler, the Company's Chairman and CEO, has guaranteed the Goleta Facility Lease on behalf of the Company with an estimated commitment as at June 30, 2019 of $0.8 million.

Michael Barker, a Director of the Company, has a material interest in BPG. The Company, through its subsidiary CPL, entered into the Build to Suit Lease with SPCL, a related party to BPG, which was approved by the Board of Directors of the Company (the "Board"). The base rent under the lease is based on the budget for the Sunniva California Campus and is calculated based on 17.2% of the project costs as determined under the terms of the lease. The lease is for an initial 15-year term with three five-year extensions. Mr. Barker's interest in the transaction is expected to be approximately 10%. The Company entered into a US$1.7 million promissory note with SPCL to finance materials purchased for the Sunniva California Campus. The promissory note maturity date was extended from June 11, 2019 to August 11, 2019 and the interest rate was increased from 10% to 25% for the period from June 11, 2019 until maturity. The parties have agreed to a payment plan and the balance is expected to be settled in September 2019.

Kevin Wilkerson, President of the Company, loaned the Company US$1.0 million on July 16, 2019, by way of promissory note at an interest rate of 10% (the "Wilkerson Note"). On August 1, 2019, Mr. Wilkerson subscribed for $1.3 million worth of August Units, and offset the subscription amount against the principal amount, together with the accrued interest, of the Wilkerson Note. Kevin Wilkerson also participated in the 2019 Convertible Debenture Financing for a principal amount of $1.3 million.

Luke Stanton, a Director of the Company, is the Founder and Executive Chairman of Frontera Law Group, which provides legal services to the Company and its US subsidiaries and as such, has an interest in transactions considered or conducted by the Company. In addition, Mr. Stanton is also a Partner of Skytree Capital Partners, LLC, a shareholder of the Company. Mr. Stanton is a shareholder of Skyfront Insurance, LLC, an insurance brokerage that provides services to the Company's U.S. subsidiaries. Mr. Stanton is also a shareholder of Composite Agency, LLC, a company that provided branding, marketing and content production services for the Sunniva California Campus and the Extraction Facility. Mr. Stanton has been separately retained by SCH, a subsidiary of the Company, as a consultant to conduct business development and government relations services on behalf of the Company in the United States for monthly compensation of US$17,500. Mr. Stanton is responsible for state licensing efforts, licensing applications plus supply contract negotiations with leading brands.

CPL entered into the Genetics Agreement with a group of entities controlled by Vinayak Shastry, former President of U.S. Operations. The expenses paid by CPL pursuant to the Genetics Agreement were approximately US$75,000 per month, paid on a month-to-month basis. On April 1, 2019, The Genetics Agreement terminated in accordance with its terms, and no further payments are being made. In Q1 2019 the cannabis genetic and propagating materials to be used at the Sunniva California Campus were transferred to a third-party facility for storage until required.

Barbara Holler, the spouse of Dr. Anthony Holler, participated in a dual tranche non-brokered offering of convertible debentures ("Convertible Debentures") which closed on February 12, 2019 and March 1, 2019 for aggregate gross proceeds of $18.8 million (the "2019 Convertible Debenture Financing") for a principal amount of $1.0 million and participated in the April Unit Offering for a principal amount of $1.0 million.

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Significant judgments made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the Consolidated Financial Statements include the determination of functional currency and the Company's ability to continue as a going concern.

Changes in Accounting Policies Including Initial Adoption

There have been no changes in accounting policies including initial adoptions.

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 and NHS will defend their position. No amount has been recorded in the Consolidated Financial Statements since an amount cannot be reliably measured at this point.

US Regulatory Regime

<u>The Cole Memo</u>

On August 29, 2013, in response to the medical cannabis legalization initiatives in several states, the US Department of Justice ("DOJ") prepared and issued the *Cole Memo* (the "Cole Memo") as guidance to federal prosecutors concerning medical cannabis enforcement under the *Controlled Substances Act* (the "CSA"). The DOJ identified the most significant threats posed by cannabis activity that federal law enforcement, including in the use of federal funds, should prioritize:

- preventing the distribution of marijuana to minors;
- preventing revenue from the sale of marijuana from going to criminal enterprises, gangs, and cartels;
- preventing the diversion of marijuana from states where it is legal under state law in some form to other states;
- preventing state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- preventing violence and the use of firearms in the cultivation and distribution of marijuana;
- preventing drugged driving and the exacerbation of other adverse public health consequences associated with marijuana use;
- preventing the growing of marijuana on public lands and the attendant public safety and environmental dangers posed by marijuana production on public lands; and
- preventing marijuana possession or use on federal property.

The Cole Memo explains that outside of the eight listed enforcement priorities, the federal government should rely upon state and local law enforcement to address cannabis activity through enforcement of each state's respective narcotics laws. In relevant part, the Cole Memo states the following:

"In jurisdictions that have enacted laws legalizing marijuana in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of marijuana in compliance with those laws and regulations is less likely to threaten the federal priorities set forth above . . . [a] robust system may affirmatively address those priorities by, for example, implementing effective measures to prevent diversion of marijuana outside of the regulated system, prohibiting access to marijuana by minors, replacing an illicit marijuana trade with a tightly regulated market in which revenues are tracked . . . [i]n those circumstances, state and local law enforcement shall remain the primary means of addressing marijuana-related activity."

<u>United States v. McIntosh</u>

Under the U.S. Ninth Circuit's Holding in *United States v. McIntosh* (9th Cir. 2016) ("*McIntosh*"), the DOJ is prohibited from spending federal funds to prosecute individuals whose conduct is permitted by and complies with State medical cannabis laws.

In *McIntosh*, the defendants faced federal indictments under the CSA due to their involvement in medical cannabis cultivation, manufacturing and dispensing. The defendants challenged their indictments on the basis that such prosecution violated the Rohrabacher-Blumenauer Amendment, an omnibus appropriations bill enacted by Congress in December 2014 (the "RBA"), dictates the following:

"None of the funds made available in this Act to the Department of Justice may be used with respect to the States of . . . California, . . . to prevent such States from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana."

The Ninth Circuit, in deciding whether the prosecutions of the defendant violated the RBA, focused on the plain meaning of the specific text, specifically, "prevent such states from implementing their own State laws that authorize the use, distribution, possession, or cultivation of medical marijuana." The Ninth Court rejected the DOJ's argument that prosecuting private individuals does not prevent the medical cannabis "States from implementing their own [medical cannabis laws]." In an important and telling passage, the Court stated:

"By officially permitting certain conduct, state law provides for non-prosecution of individuals who engage in such conduct. If the federal government prosecutes such individuals, it has prevented the state from giving practical effect to its law providing for non-prosecution of individuals who engage in the permitted conduct."

Thus, the Ninth Circuit concluded that, at a minimum, the RBA prohibits the DOJ from spending federal funds for the prosecution of individuals who engaged in medical commercial cannabis activity permitted by the state's medical cannabis laws and fully complied with those medical cannabis laws.

While the Ninth Circuit's holding is limited in geographic scope, the Company's California operations fall under the jurisdiction of the Ninth Circuit, where the *McIntosh* case is legal precedent. The Company's planned operations comply with MAUCRSA (as defined below), pursuant to the ruling in *McIntosh*, the Company believes it can assert the ruling as a defense against any federal prosecution.

Extension of the Rohrabacher-Blumenauer Amendment

In its *McIntosh* ruling, the Ninth Circuit recognized the temporal nature of the RBA. Because it is part of an omnibus bill and is a budget rider, it must be renewed by Congress each year to remain in effect. This makes its longevity a political issue. The Ninth Circuit did indicate that this temporary lack of funding could become a more permanent lack of funds if Congress continues to include the same rider in future appropriations bills.

On July 27, 2017, the Senate Appropriations Committee approved the rider by a voice vote, indicating that it was not controversial among the panel's members. The Senate Appropriations Committee includes 16 Republicans and rejected a recent personal plea by former Attorney General Jeff Sessions to let the amendment lapse.

On May 17, 2018, the House Appropriations Committee approved inclusion of the RBA in the CJS appropriations bill for fiscal year 2019, in a voice vote led by sponsor Rep. David Joyce. The amendment was then renewed through a series of short-term spending bills signed on September 28, 2018, December 7, 2018 and January 25, 2019. On February 15, 2019, the amendment was renewed as part of an omnibus spending bill in effect through September 30, 2019. However, the bill does not afford the same DOJ prohibitions regarding prosecuting conduct and commerce regarding recreational marijuana, which poses a significant risk to the Company's California production of recreational marijuana. Moreover, there can be no certainty that Congressional support for the RBA amendment will continue after the September 30, 2019 expiration.

The Sessions Memo

On January 4, 2018, former Attorney General Jeff Sessions and the DOJ issued a Memorandum for all United States Attorneys entitled "Marijuana Enforcement" (the "Sessions Memo"). The effect of the Sessions Memo has been to rescind the guidance issued on August 29, 2013 relative to medical marijuana enforcement under the Cole Memo.

The Sessions Memo instructs federal prosecutors to disregard the previous Obama-era Cole Memo guidance, and instead follow "the well-established principles that govern all federal prosecutions . . . as reflected in chapter 9-27.000 of the U.S. Attorney's Manual." The Sessions Memo continues, stating, "these principles require federal prosecutors deciding which cases to prosecute to weigh all relevant considerations, including federal law enforcement priorities set by the Attorney General, the seriousness of the crime, the deterrent effect of criminal prosecution, and the cumulative impact of particular crimes in the community."

The effect of the Cole Memo's rescission remains to be seen. Since 1980, when chapter 9-27.000 of the U.S. Attorney's Manual was originally promulgated, the United States has undergone a dramatic shift in both national and state-level marijuana policy. In 1980, there were zero (0) states in the U.S. with marijuana decriminalization or legalization statutes. Today, over forty (40) states and U.S Territories have enacted marijuana legislation in some form, with additional states considering similar legalization measures. As a result, the manner in which the factors identified in chapter 9-27.000 of the U.S. Attorney's Manual (e.g. "seriousness of the crime," "deterrent effect of criminal prosecution," and cumulative impact . . . in the community") are considered and interpreted today as a matter of prosecutorial discretion, will likely be different than the way in which they were considered and interpreted in 1980.

On the same day of the Sessions Memo's release, numerous government officials, legislators and federal prosecutors in states with medical and recreational marijuana statutes announced their intention to continue the Cole Memo-era status quo despite the DOJ's decision to rescind it. Further, Session's replacement, U.S. Attorney General William Barr during his confirmation hearing, pledged not to go after marijuana companies that comply with state law. He recently put this pledge in writing, when responding to written questions from senators. "As discussed in my hearing, I do not intend to go after parties who have complied with the state law in reliance on the Cole Memorandum," he wrote. The RBA also remains in effect, which prohibits the Justice Department from spending funds to interfere with the implementation of state medical cannabis laws. Moreover, in January of 2019, then nominated and now current Attorney General William Bar, in a series of written responses to the Senate Judiciary Committee as a follow up to his confirmation hearing stated his preference is that the "legislative process, rather than administrative guidance, is ultimately the right way to resolve whether and how to legalize marijuana."

The impact that this lack of uniformity between state and federal authorities, policies, court holdings and the RBA coupled with the uncertainty of future federal legislation could have on individual state cannabis markets and the businesses that operate within them is unclear and the enforcement of relevant federal laws is a significant risk.

The Company will continue to abide by the tenets of the Cole Memo indefinitely, and strictly comply with all of the federal priorities listed under the Cole Memo, despite the fact that it has been rescinded. The Company views compliance with these federal government principles as an absolute necessity for both the success of the Company as well as the emergence of a successful regulated marketplace in the United States. Further, management will continue to assess all considerations relevant to federal law enforcement priorities in this arena, and to monitor all related political and regulatory developments.

<u>California Regulations</u>

Through its passage of Senate Bill No. 94 in June 2017 ("SB94"), the repeal of the *Medical Cannabis Regulation and Safety Act* and the amendment of the *Adult Use of Marijuana Act*, California has consolidated two distinct laws into a single law known as the *Medicinal and Adult-Use Cannabis Regulation and Safety Act* ("MAUCRSA"). MAUCRSA consolidated three separate regulatory bodies (the Department of Food and Agriculture, the Department of Consumer Affairs, and the Department of Public Health) into a single regulatory system for both medicinal and adult use cannabis. As such, California has created a comprehensive regulatory framework that addresses the DOJ's priorities and governs commercial cannabis activity the same, regardless of whether it is medicinal or recreational cannabis activity.

SB94 imposes requirements to ensure medical cannabis products and revenues are not diverted to non-patients, minors, felons, and across state lines. It also requires a track-and-trace program from seed-to-sale to ensure illicit cannabis cannot enter the regulated marketplace. California's regulatory controls and system in the commercial cannabis industry addresses the key federal enforcement priorities set forth in the Cole Memo, including preventing diversion to minors and across state lines, and preventing revenue streams to criminal enterprises.

Under the new regulations, the Company will be required to pursue a state license in California in addition to its licenses granted by Cathedral City.

The Company believes California state law enforcement (and regulatory agencies) will be respected as the primary enforcer of medical cannabis regulations despite the rescission of the Cole Memo. The Company operates within the framework of MAUCRSA and believes it should not trigger any one of the federal enforcement priorities enumerated under the Cole Memo or under chapter 9-27.000 of the U.S. Attorney's Manual.

The Company has retained U.S. legal counsel in order to monitor the California state regulatory regime and proactively advise management and the Board on ongoing regulatory matters.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of Common Shares without par value.

As at August 28, 2019, the Company has 39,206,537 Common Shares issued and outstanding (December 31, 2018 – 38,083,780). In addition, the Company has 4,723,750 stock options outstanding (December 31, 2018 – 5,082,250), 9,402,600 Warrants outstanding, including Warrants issued in connection with the April Unit Offering, the August Unit Offering and bought deal offerings that closed in 2018 (December 31, 2018 – 4,965,961), 433,254 compensation options outstanding which were issued in connection with the bought deal offerings that closed in 2018, $13,288,175 principal amount of unsecured promissory notes and $25,402,917 principal amount of Convertible Debentures outstanding which are convertible into 5,029,583 Common Shares, not including Common Shares issuable in respect of accrued interest. Each of the Company's outstanding stock options, Warrants, and compensation options are exercisable for one Common Share.

RISKS AND UNCERTAINTIES

The Company is pursuing commercial ventures in the cannabis business that encompass the biotechnology and agricultural industries and as such, is exposed to a number of risks and uncertainties that are not uncommon to other companies in the same business. The Company continues to have limited capital resources and relies upon debt financing, the sale of its assets or sale of Common Shares for cash required to make new investments and to fund the operations of the Company.

Investing in Common Shares involves significant risks. You should carefully consider the summary of risks described below, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing in the Company's Annual Information Form dated April 29, 2019. The risks and uncertainties described below are those we currently believe to be material, but they are not the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

Risks Related to the Company

- The Company is a development stage company with little operating history, and the Company cannot assure profitability.
- Uncertainty about the Company's ability to continue as a going concern.
- There is no assurance that the Company will turn a profit or generate immediate revenues.
- The Company's actual financial position and results of operations may differ materially from the expectations of the Company's management.

- The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure, growth, regulatory compliance and operations.
- There are factors which may prevent the Company from the realization of growth targets.
- There are factors which may prevent the Company from completing certain strategic initiatives.
- The Company is reliant on its cultivation licenses to produce medical cannabis products in Canada.
- The Company is subject to changes in laws, regulations and guidelines which could adversely affect the Company's future business, financial condition and results of operations.
- The impact of the potential development of an adult-use cannabis market in Canada on the Company's future business, financial condition and results of operations is uncertain.
- The Company's business plan involves a number of strategic partnerships. If these partnerships do not materialize, the Company may be unable to sell its products.
- The Company may not be able to develop its products, which could prevent it from ever becoming profitable.
- The Company's officers and directors control a large percentage of the Company's issued and outstanding Common Shares and such officers and directors may have the ability to control matters affecting the Company and its business.
- The Company may not be able to effectively manage its growth and operations, which could materially and adversely affect its business.
- The Company may be unable to adequately protect its proprietary and intellectual property rights, particularly in the U.S.
- The Company may be forced to litigate to defend its intellectual property rights, or to defend against claims by third parties against the Company relating to intellectual property rights.
- The outcome of the litigation surrounding a privacy breach of the Electronic Medical Record system used by NHS is unknown.
- The Company may become subject to other litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations, and financial condition.
- The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates.
- The Company faces competition from other companies where it will conduct business that may have higher capitalization, more experienced management or may be more mature as a business.
- The Company is reliant on certain key members of management, the loss of any one of which could materially adversely affect its operations.
- If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the cannabis market.
- There is no assurance that the Company will obtain and retain any relevant licenses.
- Failure to successfully integrate acquired businesses, its products and other assets into the Company, or if integrated, failure to further the Company's business strategy, may result in the Company's inability to realize any benefit from such acquisitions.
- The size of the Company's target market is difficult to quantify, and investors will be reliant on their own estimates on the accuracy of market data.
- The Company's industry is experiencing rapid growth and consolidation that may cause the Company to lose key relationships and intensify competition.
- The Company continues to sell securities for cash to fund operations, capital expansion, mergers and acquisitions that will dilute the current security holdings of shareholders.

- The Company currently has insurance coverage; however, because the Company operates within the cannabis industry, there are additional difficulties and complexities associated with such insurance coverage.
- The cultivation of cannabis includes risks inherent in an agricultural business including the risk of crop loss, sudden changes in environmental conditions, equipment failure, product recalls and others.
- The cultivation of cannabis involves a reliance on third party transportation which could result in supply delays, reliability of delivery and other related risks.
- The Company may be subject to product recalls for product defects self-imposed or imposed by regulators.
- The Company is reliant on key inputs, such as water and utilities, and any interruption of these services could have a material adverse effect on the Company's finances and operation results.
- The expansion of the medical cannabis industry may require new clinical research into effective medical therapies, when such research has been restricted in the U.S. and is new to Canada.
- Under California and Canadian regulations, a licensed producer of cannabis may have restrictions on the type and form of marketing it can undertake which could materially impact sales performance.
- The Company could be liable for fraudulent or illegal activity by its employees, contractors and consultants resulting in significant financial losses due to claims against the Company.
- The Company will be reliant on information technology systems and may be subject to damaging cyber-attacks.
- The Company may be subject to security breaches at its facilities, or in respect of electronic documents and data storage, and may face risks related to breaches of applicable privacy laws.
- The Company's officers and directors may be engaged in a range of business activities resulting in conflicts of interest.
- In certain circumstances, the Company's reputation could be damaged.

Risk Factors Related to the United States

- Some of the Company's planned business activities, while believed to be compliant with applicable U.S. state and local law, are illegal under federal law.
- There is uncertainty regarding existing protection from federal prosecution.
- There is uncertainty surrounding the Trump Administration and Attorney General William Barr and their influence and policies in opposition to the cannabis industry as a whole.
- The Company is operating at a regulatory frontier. The cannabis industry is a new industry that may not succeed.
- The Company's business operations may come under additional scrutiny by governmental and non-governmental agencies.
- Due to the classification of cannabis as a Schedule II controlled substance under the CSA, the property of the Company may be seized, and the operations of the Company shut down.
- The Company may not be able to obtain all necessary California licenses and permits or complete construction of its facilities in a timely manner, which could, among other things, delay or prevent the Company from becoming profitable.
- The Company is reliant on its cultivation licenses in Cathedral City to produce medical cannabis products in California and will be reliant on its ability to secure licenses in the State of California under *Medicinal and Adult-Use Cannabis Regulation and Safety Act* in the future.
- The Company's operations in the United States cannabis market may become the subject of heightened scrutiny.

- Regulatory scrutiny of the Company's industry may negatively impact its ability to raise additional capital.
- There is no assurance of success or profitability under the new legal and regulatory structure in California.
- California Legislation states that once the regulations promulgated by the Bureau of Cannabis Control, and any other California state agency that may become involved, are implemented, no person can engage in commercial cannabis activity without possessing both a state license and either a local permit, license or other authorization, or otherwise in compliance with local law.
- There are fees associated with acquiring, and renewing, licenses. However, the specific amount of such fees has yet to be determined and may vary based on several factors.
- Applicable legislation imposes state taxes on California's cannabis industry and authorizes local jurisdictions to assess taxes and fees on such activities. There currently is no way to predict the tax regime that will apply when (and if) such legislation becomes effective.
- The Company may incur significant tax liabilities if the Internal Revenue Service continues to determine that certain expenses of cannabis businesses are not permitted tax deductions under section 280E of the tax code.
- State and local laws and regulations may heavily regulate brands and forms of cannabis products and there is no guarantee that the Company's proposed products and brands will be approved for sale and distribution in any state.
- The Company may have difficulty accessing the service of banks and processing credit card payments in the future, which may make it difficult for the Company to operate.
- The Company is reliant on third-party suppliers, manufacturers and contractors.
- Due to the classification of cannabis as a Schedule II controlled substance under the CSA, banks and other financial institutions which service the cannabis industry are at risk of violating certain financial laws, including anti-money laundering statutes.
- Any re-classification of cannabis or changes in U.S. controlled substance laws and regulations may affect the Company's business.
- Cannabidiol is classified as Schedule I controlled substance. The Drug Enforcement Agency recently published a final rule in the Federal Register creating a new drug code for "marihuana extracts".
- U.S. Federal trademark and patent protection may not be available for the intellectual property of the Company due to the current classification of cannabis as a Schedule I controlled substance.
- The Company's contracts may not be legally enforceable in the United States.
- The Company may lack access to United States bankruptcy protections.
- Canadian investors in the Common Shares and the Company's directors, officers and employees may be subject to travel and entry bans into the United States.

Risks Related to Our Securities

- The market price for Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond our control.
- The Company is subject to uncertainty regarding legal and regulatory status and changes.
- The Company does not anticipate paying cash dividends.
- Future sales of Common Shares by existing shareholders could reduce the market price of the Common Shares.

For additional description of the risk factors affecting the Company, please see the Company's continuous disclosure documents on www.sedar.com.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers, or may be associated with, other reporting companies, or have significant shareholdings in other companies. To the extent that such other companies may participate in business or asset acquisitions, dispositions, or ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding on terms with respect to the transaction. If a conflict of interest arises, the Company will follow the provisions of the CBCA that address conflicts of interest. The CBCA requires each director and officer to disclose in writing (or request to have entered in the minutes of the Board meeting) the nature and extent of the director's or officer's interest in a material contract or transaction, whether made or proposed, with the Company. The CBCA further requires such a director to refrain from voting on a resolution to approve the contract or transaction except in narrow circumstances set out in the CBCA. In all circumstances, the directors and officers of the Company are required to act honestly, in good faith, and in the best interest of the Company.

Additional Information

Additional information related to the Company, including its Annual Information Form, is available for view on the Company's website at www.sunniva.com and through its public filings on www.sedar.com.