LIVEWELL CANADA, INC.

Consolidated Financial Statements
Years Ended December 31, 2018 and 2017
(In Canadian Dollars)

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Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

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MNP SENCRL srl / LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of LiveWell Canada Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of LiveWell Canada Inc. (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of loss, comprehensive loss, stockholders' deficit, and cash flows for the years ended December 31, 2018 and December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the results of its consolidated operations and its consolidated cash flows for the year ended December 31, 2018 and 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2-A to the consolidated financial statements, the Company has incurred significant operating losses from inception and as of December 31, 2018, have generated little revenue to date and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2-A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2017.
Montréal, Québec

[1]

MNP SENCRL, srl
April 29th, 2019

[1]CPA auditor, CA, public accountancy permit No. A126822

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LIVEWELL CANADA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in CDN $000s)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current Assets			
Cash		**$ 1,195**	$ 1,230
Restricted short-term investment	8	**125**	-
Amounts receivable	9	**2,437**	307
Prepaid expenses and other	10	**4,743**	71
Inventory	11	**1,009**	545
Total Current Assets		**9,509**	2,153
Non-Current Assets			
Property, plant and equipment	12	**34,305**	10,215
Intangible assets	13	**12,757**	-
Goodwill	6,7 & 14	**10,381**	3,542
Other	19(b)(3)	**2,524**	-
Total Non-Current Assets		**59,967**	13,757
TOTAL ASSETS		**$ 69,476**	$ 15,910
LIABILITIES			
Current Liabilities			
Bank indebtedness	15	**$ 2,031**	$ -
Accounts payable and accrued liabilities	16	**8,246**	1,542
Customer deposits		**2,111**	-
Due to Acenzia selling shareholders	7	**2,000**	-
Capital leases- current portion	17	**56**	-
Borrowings - current portion	18	**12,107**	13
Subscription deposits		**-**	353
Total Current Liabilities		**26,551**	1,908
Non-Current Liabilities			
Borrowings	18	**444**	6,087
Capital leases- non-current portion	17	**118**	-
Loans due to related parties	24	**371**	-
Deferred tax liabilities	21	**4,291**	840
Total Non-Current Liabilities		**5,224**	6,927
TOTAL LIABILITIES		**31,775**	8,835
Commitments and contingencies	25		
SHAREHOLDERS' EQUITY			
Preferred shares	19(a)	**5,605**	5,605
Common shares	19(b)	**49,275**	17,576
Equity reserves:	19(c)		
Share-based payments		**2,592**	1,377
Warrants		**2,193**	-
Shares to be issued to Acenzia selling shareholders		**14,499**	-
Other		**(11,186)**	(11,186)
Deficit		**(25,277)**	(6,297)
TOTAL SHAREHOLDERS' EQUITY		**37,701**	7,075
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 69,476**	$ 15,910

See Notes 2(A) "Going Concern" and 29 "Subsequent events"

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

LIVEWELL CANADA INC.

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in CDN $000s)

	Notes	December 31, 2018	December 31, 2017
Revenue		**$ 751**	$ 16
Cost of sales			
Cost of product sales		**887**	12
Inventory impairment charge	11	**490**	19
Cost of sales		**1,377**	31
Gross loss		**(626)**	(15)
Operating expenses	28		
General and administrative ("G&A")		**6,015**	3,899
Sales & Marketing ("S&M")		**577**	318
Research and development ("R&D")		**296**	16
Non-cash charge for Canopy Transaction	19(b)	**5,049**	-
Stock-based compensation	19(c)	**1,226**	1,515
Depreciation and amortization		**533**	5
Total operating expenses		**13,696**	5,753
Loss from operations		**(14,322)**	(5,768)
Other income/ (expenses)			
Finance income		**19**	3
Finance expense		**(632)**	-
Listing expense	5	**(4,045)**	-
Loss before income taxes		**(18,980)**	(5,765)
Income tax recovery (expense)		**-**	37
NET LOSS AND COMPREHENSIVE LOSS		**$ (18,980)**	$ (5,728)
LOSS PER SHARE, BASIC AND DILUTED	20		
Net loss per share		**$ (0.17)**	$ (0.13)
Weighted average number of outstanding common shares		**112,734**	43,778

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

LIVEWELL CANADA INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in CDN $000s and thousands of shares)

		Number of Shares				Reserves					
(Refer to Note 19)	**Other Notes**	**Preferred**	**Common**	**Preferred Shares**	**Common shares**	**Share-based Payment**	**Warrants**	**Shares to be issued**	**Other**	**Deficit**	**Total Equity**
Balance at December 31, 2016		-	26,152	$ -	$ 985	$ 1	$ -	$ -	$ -	$ (569)	$ 417
Issuance of preferred shares from acquisition	6	5,741	-	5,605	-	-	-	-	-	-	5,605
Issuance of common shares for LiveWell Quebec		-	21,285	-	9,164	-	-	-	(9,164)	-	-
Issuance of common shares from share offerings		-	17,598	-	5,924	-	-	-	-	-	5,924
Share issuance costs		-	-	-	(644)	-	-	-	-	-	(644)
Loans for stock repurchase		-	2,029	-	60	-	-	-	-	-	60
Repurchase of common shares		-	(2,029)	-	(60)	-	-	-	-	-	(60)
Issuance of seeding common shares to founders		-	8,639	-	2,022	-	-	-	(2,022)	-	-
Share-based compensation		-	-	-	-	1,501	-	-	-	-	1,501
Exercise of stock options		-	534	-	125	(125)	-	-	-	-	-
Net loss		-	-	-	-	-	-	-	-	(5,728)	(5,728)
Balance at December 31, 2017		5,741	74,209	$ 5,605	$ 17,576	$ 1,377	$ -	$ -	$ (11,186)	$ (6,297)	$ 7,075
Equity raises		-	19,313	-	8,315	-	-		-	-	8,315
Issuance of common shares from QT	5	-	3,700	-	3,463	-	-		-	-	3,463
Issuance of stock options from QT	5	-	-	-	-	203	-		-	-	203
Issuance of common shares for Canopy transaction		-	17,590	-	7,573	-	-		-	-	7,573
Issuance of units		-	16,012	-	13,649	-	2,172		-	-	15,821
Issuance of warrants		-	-	-		-	155		-	-	155
Exercise of warrants		-	11	-	15	-	(2)		-	-	13
Share issuance costs		-	-	-	(1,614)	-	(132)		-	-	(1,746)
Share-based compensation		-	-	-	-	1,226	-		-	-	1,226
Exercise of stock options		-	854	-	298	(214)	-		-	-	84
Shares to be issued								14,499	-		14,499
Net loss		-	-	-	-	-	-	-	-	(18,980)	(18,980)
Balance at December 31, 2018		5,741	131,688	**$ 5,605**	**$ 49,275**	**$ 2,592**	**$ 2,193**	**$ 14,499**	**$ (11,186)**	**$ (25,277)**	**$ 37,701**

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

LIVEWELL CANADA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in CDN $000s)

	Notes	December 31, 2018	December 31, 2017
Cash flows from operating activities			
Net loss		**$ (18,980)**	$ (5,728)
Adjustments for non-cash items:			
Income tax recovery		**-**	(37)
Depreciation and amortization		**540**	5
Bad debt provision	9	**247**	1,770
Inventory impairment charge	11	**490**	19
Stock-based compensation	19(c)	**1,226**	1,515
Charge (reversal) for non-refundable deposit for property		**(63)**	63
Non-cash charge for Canopy Transaction	19(b)	**5,049**	-
Non-cash listing expense	5	**3,666**	-
Adjustments for net changes in non-cash working capital	26	**1,531**	(2,222)
Net cash used in operating activities		**(6,294)**	(4,615)
Cash flows from investing activities			
Advances to related party		**(160)**	-
Repayment from related party		**-**	142
Loans from related party		**125**	-
Repayment to related party		**(125)**	-
Net cash inflow from acquisition of Sole Produce		**-**	293
Purchase of short-term investment	8	**(125)**	-
Purchase of Litchfield property		**(605)**	(125)
Investment in greenhouse improvements		**(15,067)**	(372)
Purchase of furniture and equipment		**(12)**	(36)
Net cash used in investing activities		**(15,969)**	(98)
Cash flows from financing activities			
Proceeds from issuance of common shares	19(b)	**21,611**	5,910
Proceeds from issuance of warrants	19(c)	**2,327**	-
Exercise of options		**84**	-
Exercise of warrants		**13**	-
Receipt of subscription deposits		**-**	353
Payment of share and warrant issuance costs	19(b)	**(1,746)**	(644)
Repurchase of common shares		**-**	(60)
Payment on bank indebtedness	15	**(44)**	-
Payment on borrowings	18	**(17)**	-
Net cash from financing activities		**22,228**	5,559
Net change in cash		**(35)**	846
Cash, beginning of year		**1,230**	384
Cash, end of year		**$ 1,195**	$ 1,230

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

1. CORPORATE INFORMATION

Livewell Canada Inc. (“LiveWell”), formerly Percy Street Capital Corporation (“Percy Street”), was incorporated on June 18, 2014 by articles pursuant to the Canada Business Corporations Act. LiveWell’s registered address is 1400-340 Albert Street, Ottawa, Ontario, Canada and its principal address is 179 Promenade du Portage, Suite 300, Gatineau, J8X 2K5, Quebec.

LiveWell is a Canadian health and wellness company focused on advanced research in cannabidiol (“CBD”) and other cannabinoids, as well as development and distribution of prescription and consumer health products.

During 2018, LiveWell entered the following acquisition transactions:

- On June 19, 2018, Percy Street completed its Qualifying Transaction (“QT”) with LiveWell Foods Canada Inc. This transaction also constituted a reverse takeover (“RTO”) by LiveWell as the shareholders of LiveWell Foods Canada, Inc. owned approximately 97% of the common shares of the combined companies (see Note 5). After the closing of the QT, Percy Street was renamed to LiveWell Canada Inc. and its trading symbol was changed to “LVWL” on the TSXV. On November 26, 2018, LiveWell received an approval to list its common shares on the Canadian Securities Exchange (“CSE”). As a result of this listing, LiveWell voluntarily delisted from the TSXV.

- On December 3, 2018, LiveWell entered a binding letter of agreement (“LOA”) to acquire 100% of Vitality CBD Natural Health Products Inc. (“Vitality”) common shares. This was subsequently amended to also include the acquisition of Mercal Capital Corp. via an amalgamation. At closing, these transactions will be an RTO by Vitality as the shareholders of Vitality will own approximately 83% of the fully diluted outstanding and issued common shares of the combined companies, with potentially an additional 5% subject to achieving a milestone by June 30, 2019 as defined in the LOA. This RTO closed on April 24, 2019 (see Note 29).

- On December 14, 2018, LiveWell entered a definitive agreement to acquire 100% of the issued and outstanding shares of Acenzia Inc. (“Acenzia”), a company offering scientific research, product development, and advanced manufacturing services in the nutraceutical industry (Note 7).

In these consolidated financial statements, “LiveWell”, “Company”, “we”, “us”, or “ours” refers to LiveWell Canada Inc. and its wholly-owned subsidiaries.

Amounts in tables may not reconcile due to rounding differences.

2. BASIS OF PRESENTATION

A) Going Concern

LiveWell is in the development stage and is currently seeking additional capital, acquisitions, joint ventures, strategic partnerships and other business arrangements to generate and grow its revenues and expand its product offerings in the health and wellness industry.

We have incurred significant operating losses from inception and as of December 31, 2018, we have not generated significant revenues. At December 31, 2018, LiveWell has an accumulated deficit of $25.3 million (December 31, 2017 - $6.3 million) and incurred a net loss of $18.9 million for the year

ended December 31, 2018 and $5.7 million for the year ended December 31, 2017. At December 31, 2018, LiveWell has cash of $1.2 million (2017- $1.2 million) and working capital of negative $17.0 million (2017- positive $245 thousand). These events or conditions indicate that a material uncertainty exists that casts substantial doubts on LiveWell's ability to continue as a going concern.

Prior to the Acenzia acquisition and Vitality RTO, our ability to generate and grow future revenue to cover our working capital requirements was dependent on securing the cultivation, processing, and sales licenses for hemp and cannabis from Health Canada under *The Cannabis Act*. However, with the addition of Acenzia and Vitality, we are no longer dependent on this Canadian license for future revenues. During 2019, we will be expanding Acenzia's customer base to drive revenue. Further, through Vitality, we will be selling CBD related health and wellness products and gain access to the US markets to drive sales growth and cash flows for the combined companies.

LiveWell's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and to obtain the necessary financing to meet its near-term obligations such that it can repay its liabilities when they become due.

Subsequent to December 31, 2018, we raised gross proceeds of $21.7 million, before agent fees and legal expenses of $3.1 million in a brokered private placement with institutional investors (Note 29). While Management is confident in raising additional capital during 2019, there can be no certainty that such financing will be available on a timely basis and at terms acceptable to LiveWell.

These consolidated financial statements have been prepared on a going concern basis, which assumes that LiveWell will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, no adjustments to the carrying value of the assets and liabilities have been made in these audited financial statements should LiveWell no longer be able to continue as a going concern.

B) Statement of compliance

We have prepared these consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

On April 29, 2019 our Board of Directors approved these consolidated financial statements and authorized them for issue.

C) Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for biological assets, certain financial instruments and acquisition related contingent liabilities which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. The expenses within the Statements of Operations and Comprehensive Loss are presented by function. See Note 28 for details of expenses by nature.

D) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is also LiveWell's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

We have used the following significant accounting policies to prepare LiveWell's consolidated financial statements. These policies have been consistently applied to all years presented, unless otherwise noted.

(a) Basis of consolidation

These consolidated financial statements incorporate the financial statements of LiveWell Canada Inc. and entities that it controls.

Control is achieved when we have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, are exposed to, or have rights to, variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to LiveWell until the date on which control ceases. Profit and loss or other comprehensive income (loss) of subsidiaries acquired during the year are recognized from the date of acquisition or effective date of disposal as applicable. All intercompany transactions and balances have been eliminated.

The following table lists LiveWell's subsidiaries and the ownership interest in each:

	Location	% Ownership	Accounting Method
LiveWell Foods Canada, Inc.	Gatineau, Quebec	100%	Consolidation
O'Hemp	Ottawa, Ontario	100%	Consolidation
LiveWell Foods Quebec, Inc.	Gatineau, Quebec	100%	Consolidation
Artiva Inc.	Ottawa, Ontario	100%	Consolidation
Acenzia Inc.	Windsor, Ontario	100%	Consolidation

(b) Business combinations and Goodwill

We apply the acquisition method in accounting for business combinations when control is transferred to LiveWell. The consideration transferred by LiveWell to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by LiveWell, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

Goodwill represents the excess of the price paid for the acquisition of an entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash-generating unit ("CGU") or CGUs to which it relates.

We measure goodwill at historical cost and evaluate for impairment annually in the last quarter of the fiscal year or more often if events or circumstances indicate there may be an impairment. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the CGU. Any goodwill impairment is recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

(c) Foreign currency translation

Transactions in foreign currency are translated into the functional currency using the exchange rate in effect on the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at the reporting date exchange rate are recognized in net earnings ("P&L"). Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction. Assets and liabilities of the foreign operations, including goodwill and fair value adjustments arising from the acquisition, are translated into the functional currency at the period end rates of exchange, and the results of its operations are translated at average rates of exchange for the period. Exchange differences resulting from translating foreign operations are recognized in other comprehensive income and accumulated in equity.

(d) Cash

Cash includes cash on hand or deposits held with financial institutions.

(e) Biological assets

We classify vegetable produce, industrial hemp and medicinal cannabis plants as biological assets. While LiveWell's biological assets are within the scope of IAS 41, *Agriculture*, the direct and indirect costs of biological assets are determined using an approach like the capitalization criteria as outlined in IAS 2, *Inventories*. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. We capitalize all direct and indirect costs of biological assets as they are incurred and they are all subsequently recorded within the line item "cost of goods sold" in the P&L in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded separately in the P&L. Biological assets are measured at their fair value less costs to sell on the consolidated statements of financial position.

(f) Inventory

Inventory may comprise of harvested finished goods, agriculture produce, seeds, potting soil, fertilizer, and packaging materials. The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour, and depreciation expense on equipment involved in packaging, labelling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within "costs of goods sold" on the P&L at the time of sale, except for realized fair value amounts included in inventory sold which are recorded separately in the P&L.

We record inventories at the lower of cost and net realizable value on the consolidated statements of financial position. We determined cost using the average cost basis.

(g) Property, plant & equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. We determine depreciation on a straight-line basis over the following estimated useful lives:

Computer Equipment	3 years
Furniture and fixtures	5 years
Production equipment	5 years
Building and improvements	20 years
Greenhouse and improvements	10-20 years
Vehicles and trailers	5 years

As no finite life for land can be determined, the related carrying amounts are not amortized.

An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, we account for these as separate items (major components) of property, plant and equipment. We capitalize the cost associated with substantive betterments or improvements to equipment that significantly add to the productive capacity or extend the useful life of an asset. All other repair and maintenance costs are recognized as expenses.

Gains or losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in the P&L.

(h) Finite-lived and indefinite-lived intangible assets

Finite-lived intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. The estimated useful lives and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

(i) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or earlier when events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets – referred as the cash-generating unit (the CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in the P&L by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(j) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs)

and the redemption value is recognized in the P&L over the period of the borrowings using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized until such time the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in the P&L in the period in which they are incurred.

(k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments on operating lease agreements are recognized as an expense on a straight-line basis in accordance with the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(l) Capital stock

Financial instruments issued by LiveWell are classified as shareholders' equity only to the extent that they do not meet the definition of a financial asset or financial liability. LiveWell's preferred shares, common shares, warrants and stock options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, warrants or stock options are recognized as a deduction from shareholders' equity, net of tax.

(m) Share-based compensation

We measure equity settled share-based payments based on their fair value at the grant date and recognize compensation expense over the vesting period based on management's estimate of equity instruments that will eventually vest. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expense reflects the revised estimate.

For share-based payments granted to non-employees, the compensation expense is measured at the fair value of the goods and services received except where the fair value cannot be estimated in which case it is measured at the fair value of the equity instruments granted. The fair value of share-based compensation to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if we had paid cash instead of paying with or using equity instruments. Consideration paid by employees or non-employees on the exercise of stock options is recorded as share capital and the related share-based compensation is transferred from share-based reserve to share capital.

Our plan does not feature any options for cash settlement.

Amendments to IFRS 2, issued in June 2016, provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and

- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for reporting periods beginning on or after January 1, 2018. There is no impact to our consolidated financial statements for the period January 1, 2018 to December 31, 2018.

(n) Warrants

Warrants that have been issued in combination with common shares are accounted for under IAS 32, *Financial Instruments: Presentation*. Equity Classification applies to instruments where a fixed amount of cash (or liability) denominated in the issuer's functional currency is exchanged for a fixed number of shares.

In calculating the value of the warrants, we use the Black Scholes option model and incorporate the following key inputs: LiveWell's stock price, expected life of the warrant, volatility of LiveWell's stock price, dividend yield and the risk-free interest rate.

(o) Valuation of equity units

We adopted the residual value method with respect to the measurement of common shares and warrants issued as "Units" under a private placement. Under the residual method, we first allocate value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements is determined to be the more easily measurable component and are valued at fair value, as determined by the closing price on the issuance date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves. If the warrants expire unexercised, the value attributed to the warrants is transferred to accumulated deficit.

(p) Revenue recognition

IFRS 15 supersedes previous accounting standards for revenue, including IAS 11, Construction Contracts, and IAS 18, Revenue, and all existing IFRS revenue interpretations. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

To determine the amount and timing of revenue to be recognized, the below mentioned 5-step process is followed:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The performance obligations are the transfer of control of goods to the customer.

Given LiveWell has insignificant revenue since its inception in 2015, the adoption of IFRS 15 has not had a material impact on LiveWell's consolidated financial statements, except for additional required disclosures.

(q) Research and development ("R&D") costs

Research costs are recognized in the P&L as incurred. We capitalize development expenditures only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and LiveWell intends to and has sufficient resources to complete the development to use or sell the asset. Otherwise, development expenditures are recognized in the P&L as incurred.

(r) Income taxes

Income taxes comprise current and deferred taxes. Income taxes are recognized in the P&L, except to the extent that they relate to a business combination or items recognized in other comprehensive income (loss) or directly to equity.

1) Current taxes

The taxes currently payable are based on the taxable income for the year, using tax rates enacted or substantively enacted at the dates of the Consolidated Statements of Financial Position in the countries where the Parent and its subsidiaries operate and generate taxable income. Additionally, it includes any adjustment to tax payable in respect of previous years. Taxable profit differs from IFRS profit because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

2) Deferred taxes

Deferred taxes are recognized using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated tax effects of temporary differences between financial reporting and taxable income (loss) and for tax credit and loss carryforwards. This is measured on a non-discounted basis using tax rates and laws that were enacted or substantively enacted at the dates of the Consolidated Statements of Financial Position and are expected to apply when the deferred tax asset or liability is settled. The effect on deferred tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, management reassess unrecognized deferred tax assets. We recognize a previously unrecognized deferred tax asset to the extent that it has become probable that future tax profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(s) Earnings (loss) per share

We present basic and diluted earnings (loss) per share ("EPS") data. Basic EPS is calculated by dividing the net earnings (loss) attributable to LiveWell's common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all potential dilutive shares. The diluted EPS is equal to the basic EPS when the effect of stock options is antidilutive as it would decrease the EPS.

(t) Financial instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

- **Amortized Cost**

  Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

- **Fair value through other comprehensive income**

  Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

  This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to designate the equity instruments as FVOCI, on an instrument-by-instrument basis, unless the asset is:

  - Held for trading, or
  - Contingent consideration in a business combination.

  Under this option, only qualifying dividends are recognized in profit and loss. Changes in fair value are recognized in OCI and never reclassified to profit or loss, even if the asset is impaired, sold or otherwise derecognized.

- **Fair value through profit or loss**

  Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

The following table summarizes the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of LiveWell's financial assets and financial liabilities.

	IAS 39 Classification	IFRS 9 Classification
Financial assets		
Cash	Loans and receivables	Amortized cost
Restricted short term investments	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Loans and Borrowings	Other liabilities	Amortized cost
Subscription deposits	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Due to Acenzia shareholders (Promissory notes)	Other liabilities	Amortized cost
Customer deposits	Other liabilities	Amortized cost

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' ("ECL") model where credit losses that are expected to transpire in futures years are provided for, irrespective of whether a loss event has occurred or not as at the balance sheet date. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: These are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: These are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

For trade receivables, we have applied the simplified approach under IFRS 9 and calculated ECLs based on lifetime expected credit losses taking into considerations historical credit loss experience and financial factors specific to the debtors and general economic conditions.

There was no material impact to LiveWell's consolidated financial statements based on adoption of IFRS 9.

Fair Value Hierarchy

In line with IFRS 13, Fair Value Measurement, we categorize LiveWell's financial instruments, measured at fair value in the Consolidated Statement of Financial Position, including its financial assets and financial liabilities, into a three-level fair value measurement hierarchy as follows:

Level 1: The fair value is determined directly by reference to unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: The fair value is estimated using a valuation technique based on observable market data, either directly or indirectly.

Level 3: The fair value is estimated using a valuation technique based on unobservable data.

(u) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM is responsible for allocating resources and assessing performance of the operating segments. Management has determined that LiveWell has only one operating segment.

(v) Future changes in accounting policy and disclosures

Relevant to LiveWell, the following standards have been issued by the IASB but were not yet effective for LiveWell's year ended December 31, 2018.

IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, which replaces the existing leases guidance including IAS 17 Leases.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The new standard will be effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16.

The Company is currently assessing the impact of this new standard on its consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions about future events that can have a material impact on the amounts reported in LiveWell's consolidated financial statements and accompanying notes. Consequently, actual results could differ materially from those estimated. The following are deemed to be critical accounting policies by management for the years ended December 31, 2018 and 2017, as these require a high level of subjectivity and judgment and could have a material impact on LiveWell's consolidated financial statements.

Business Combinations

Management exercises judgment in determining whether an acquisition is a business combination or an asset acquisition. The acquisitions for Sole Produce and Acenzia Inc. were accounted for by the acquisition method (Notes 6 and 7 respectively).

Under the acquisition method, assets acquired (including intangible assets) and liabilities assumed as part of the business combination are recorded at their fair value at the date of acquisition. In determining the allocation of the purchase price in a business combination, including any acquisition-related contingent consideration, management estimates the fair value of identifiable assets and liabilities based on observable market inputs and third-party valuation appraisal. When applicable, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

In some cases, contingent payments are recognized in the income statement over the service period if it is deemed to be remuneration, if certain conditions are met. Some of the important considerations are:

- Continuing employment;
- Duration of continuing employment;
- Level of remuneration (excluding contingent payment);
- Incremental payments to employees;
- Number of shares owned;
- Linkage to the valuation (that is, is the contingent payment compensating for low upfront consideration); and
- Formula for determining consideration.

Contingent payments that are forfeited if employment ceases are accounted for as remuneration regardless of whether other indicators point towards the payment being classified as consideration.

Where applicable, we recognize any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Acquisition-related costs are recognized as expenses in the periods in which the costs are incurred and the services are received (except for the costs to issue debt or equity securities which are recognized according to specific requirements).

The excess of the aggregate of (a) the consideration transferred to obtain control, the amount of any non-controlling interest in the acquiree over (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

Share-based compensation

We have granted stock options to employees, directors and consultants (Note 19). To estimate the fair value of stock option grants, we used the Black-Scholes option pricing model. This valuation model requires the following significant inputs/assumptions: the underlying stock price, expected life, volatility, dividend yield, and risk-free interest rate.

For the options in 2017 and the first six months of 2018 granted prior to the Qualifying Transaction, the underlying common stock was not trading on an active listing. Accordingly, for the significant inputs in the Black-Scholes option pricing model, management made the following assumptions:

- *Underlying stock price:* Set the stock price based on the equity offering from non-brokered private placements at or near the grant date of the options.
- *Underlying stock price volatility:* Based on historical data of comparable publicly traded companies in the cannabis industry.
- *Expected life:* Given the limited history of the stock option plan and LiveWell, setting expected life was inherently subjective. Management assumed the majority of option holders will exercise within the first two and half years of the five-year life of the options.

Additionally, management is required to make an estimate of future forfeitures at the time of each grant and reduce the share-based compensation charge accordingly. This was also inherently subjective due to the limited history of LiveWell.

Refer to Note 19(c) for further details on key assumptions used by management.

Provision for bad debts

At each reporting period, we perform an impairment review process for all financial assets. An impairment exists when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that the event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Given the limited history of LiveWell, including Acenzia, management exercised significant judgement in calculating the ECL at December 31, 2018.

Estimated useful lives and depreciation and amortization of property, plant & equipment (PP&E) and intangible assets

As a result of the acquisition of Sole Produce and Acenzia, we have acquired property, plant & equipment (Note 12). Management based the estimated useful lives of the respective PP&E based on current conditions and information provided by third party appraisals.

Assessing the probability of utilizing deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. As part of this evaluation, management considers the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies. These estimates are reviewed at every reporting date.

Due to LiveWell's limited history and its current and historical operating losses, management has concluded the "probable" threshold for recognition of deferred tax assets was not met and therefore no deferred tax asset was recorded at December 31, 2018 and 2017 (Note 21).

Impairment of long-lived assets

As previously noted, we test long-lived assets for impairment at the end of each financial reporting period or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized in the P&L whenever the carrying amount of the non-financial asset or its CGU exceeds its recoverable amount.

In light of the going concern uncertainty as disclosed in Note 2(a), the recoverability analysis required significant management judgement.

Goodwill

The outstanding goodwill balance at December 31, 2018 is attributable to the Acenzia acquisition on December 14, 2018 as well as to the Sole Produce acquisition on December 31, 2017.

Sole Produce was converted to the Artiva Cannabis Facility and accordingly this is the CGU for the purpose of the goodwill impairment test attributable to the Sole Produce acquisition.

The recoverable amount of these CGUs is based on a "value in use" calculation that is subject to significant management judgement including:

- the number of years to use in the cash flow projection;
- the revenue growth rate;
- the production costs; and
- the discount rate reflecting current market conditions for our sector.

In the fourth quarter of 2018, a goodwill impairment test was performed for the goodwill attributable to the Sole Produce acquisition in 2017. Management exercised significant judgment in concluding that the goodwill was not impaired.

The CGU relating to the Acenzia goodwill was not identified for the year ended December 31, 2018 (Note 14).

PP&E

Approximately $14.2 million of the total PP&E at December 31, 2018, relates to the Artiva Cannabis Facility. Based on an independent appraisal report dated September 10, 2018, for the retrofit completed to date, the market value was higher than its carrying value at December 31, 2018, after adjusting for the additional investment we made since the appraisal report. Accordingly, management concluded the carrying value of the Artiva Cannabis Facility was not impaired.

Approximately $9.2 million of the total PP&E at December 31, 2018 relates to the Litchfield Project, the future site of our Research and Innovation Center. In April 2018 we acquired the property for $4.7 million and incurred demolition costs of the existing building and site preparation. While the construction is currently on hold pending securing financing from the private and public sector, management is confident in raising additional funds and resuming the project mid-2019 and therefore no impairment charge for the year ended December 31, 2018.

Inventory impairment

Inventory is comprised of raw materials, finished goods, work-in-progress and packaging material. At the end of each reporting period, the Company performs an assessment of inventory obsolescence to measure inventory at the lower of cost or net realizable value. Factors considered in the determination of obsolescence include slow-moving or non-marketable items. As at December 31, 2017 inventory impairment of $0.2 million related to Acenzia has been recorded.

5. REVERSE TAKEOVER (“RTO”)

On June 19, 2018, Percy Street completed its Qualifying Transaction (the “QT”) with LiveWell Foods Canada Inc. by way of a three-cornered acquisition and amalgamation among, Percy Street, its wholly-owned subsidiary (108311891 Canada Inc.) and LiveWell Foods Canada Inc. Percy Street acquired all the issued and outstanding securities of LiveWell Foods Canada Inc. by issuing an aggregate of 122.8 million common shares, 1.1 million Series 1 preferred shares, 1.1 million Series 2 preferred shares, and 3.6 million Series 3 preferred shares (see Note 19). This QT resulted in an RTO as the common shareholders of LiveWell Foods Canada Inc. owned approximately 97% of the total issued and outstanding common shares of Percy Street on a non-diluted basis. As part of the QT, Percy Street was renamed to LiveWell Canada Inc. (“LiveWell”).

The RTO of Percy Street was accounted for under IFRS 2, *Share-based Payment*. Accordingly, the RTO was accounted for at the fair value of the equity instruments granted by the shareholders of LiveWell Foods Canada Inc. to the shareholders and option holders of Percy Street. The difference between the fair value of the consideration (including the outstanding options) and the fair value of Percy Street’s net assets, was recognized as a listing expense in the Consolidated Statements of Net Loss and Comprehensive Loss for the year ended December 31, 2018. The fair value of the options granted to Percy Street’s former directors and officers was estimated using the Black-Scholes option pricing model with the following key inputs:

Exercise price	**$0.30**
Expected life	1 year
Dividends	Nil
Volatility	60%
Risk free interest rate	1.88%

These options vested immediately.

The results of operations of Percy Street are included in the Consolidated Statements of Net Loss and Comprehensive Loss of LiveWell from the date of the QT.

The following represents management’s estimate of the fair value of the net assets acquired and total consideration transferred at June 19, 2018, the closing date of the QT (‘000s).

Fair value of Percy Street shares prior to QT (3,700 shares at $0.936 per share)	$	3,463
Options		203
Total consideration transferred		3,666
Less: net assets acquired from Percy Street		6
Excess attributed to cost of listing		3,660
Professional, consulting and other fees		385
Total listing costs	$	4,045

The net assets acquired include the following (‘000s):

Cash		206
Amounts receivable		1
Accounts payable and accrued liabilities		(201)
Net assets acquired	$	6

Immediately prior to the closing of the QT, Percy Street consolidated its 11.1 million common shares and 1.1 million stock options on a 3 to 1 basis to 3.7 million common shares and 0.4 million options, respectively.

6. Acquisition of Sole Produce

On December 31, 2017, we acquired 100% of the issued and outstanding common shares of 1019884 Ontario Inc. and 1496013 Ontario Inc. (collectively operated as “Sole Produce”), a local family farming business with 100 acres of land and hosts 540,000 square feet (“SFT”) of Dutch engineered, gutter connect greenhouses and 200,000 SFT of small greenhouses. Subject to obtaining appropriate licenses from Health Canada and retrofitting a portion of the greenhouses, LiveWell plans to cultivate, process and distribute cannabis (known herein as the Artiva Cannabis Facility). For 2018, we continued to produce, market and sell premium quality vegetables (the farming business of Sole Produce).

The acquisition was accounted for as a business combination under IFRS.

At the closing of the acquisition of Sole Produce, the net cash inflow was as follows (‘000s).

Cash acquired	$	1,126
Consideration paid in cash		833
Net cash inflow	$	293

The total purchase price was $11.6 million as per the agreement; however, this total included debt assumption that already existed on Sole Produce’s financial position.

The net purchase consideration comprised the following ('000s).

Cash	$ 833
Preferred Shares Series 1	1,000
Preferred Shares Series 2	1,000
Preferred Shares Series 3	3,605
Forgiveness of debt	610
Total purchase consideration	$ 7,048

Refer to Note 19(a) for further details on the preferred shares issued by LiveWell. The total purchase price of $7.0 million was allocated as follows ('000s).

Net assets acquired	$ 3,506
Goodwill	3,542
Total purchase price	$ 7,048

The fair value of the identifiable net assets acquired at the closing date included the following ('000s).

Current assets	
Cash	$ 1,126
HST receivable	63
Due from shareholders	610
Other	8
	1,807
Non-current assets	
Property, plant & equipment	9,812
Total assets acquired	**$11,619**
Current liabilities	
Accounts payable and accrued liabilities	$ 625
Borrowings - current portion	10
Due to LiveWell [(1)]	512
	1,147
Non-current liabilities	
Deferred tax liability	877
Long-term debt	6,089
	6,966
Total liabilities assumed	**$ 8,113**
Net assets acquired	**$ 3,506**

(1) Eliminated on consolidation

We incurred acquisition-related costs of $0.05 million for the acquisition of Sole Produce, which were recorded in G&A in 2017.

Had the acquisition occurred on January 1, 2017, management estimates that LiveWell's proforma consolidated revenue would have been $2.2 million and net loss $0.3 million for the year ended December 31, 2017.

On January 1, 2018, Sole Produce was amalgamated with our wholly-owned subsidiary, Artiva Inc., and the newly amalgamated company retained the name of Artiva Inc.

7. Acquisition of Acenzia

On December 14, 2018, LiveWell entered a definitive agreement to acquire 100% of the issued and outstanding shares of Acenzia for $20 million in cash and common shares, including $8 million contingent consideration subject to attaining performance milestone in 2019. This acquisition closed on March 29, 2019.

Acenzia is an advanced developer and manufacturer of natural health products and dietary supplements based in Tecumseh, Ontario. Management believes this acquisition will enable LiveWell in its plan to become a fully integrated global CBD life sciences company. Acenzia's has manufacturing capabilities and distribution networks within the health and dietary supplements markets to allow it to deliver products to targeted consumer markets.

Based on LiveWell's ability to control Acenzia's financial and operating policies effective from December 14, 2018, this was deemed to be the acquisition date under IFRS. Accordingly, these consolidated financial statements include Acenzia's financial position and its results from operations from December 14, 2018.

The acquisition of Acenzia was accounted for as a business combination under IFRS.

At the acquisition date, there was no net cash inflow as the purchase consideration did not have any cash component and Acenzia had a nil cash position due to its bank indebtedness (see Note15).

The total purchase consideration of $20 million for the acquisition comprised of the following:

- $2 million of promissory notes bearing interest at 10% per annum and maturing on June 30, 2019; and
- $10 million of LiveWell common shares at closing; and
- $8 million of LiveWell common shares in escrow, subject to achieving a minimum adjusted EBITDA in calendar 2019 as defined in the definitive agreement.

The fair value of LiveWell common stock was set at $0.84 per share to settle the $18 million in common shares, based on the 20-day weighted average up to November 30, 2018 in accordance with the definitive agreement. Accordingly, at December 31, 2018, 21.4 million common shares of LiveWell were reserved for this acquisition, of which 9.5 million common shares will be held in escrow. These common shares were issued in March 2019.

For financial reporting purposes, we have adjusted the fair value of the common shares issued to $0.74 from $0.84 to reflect the last closing stock price of LiveWell on December 3, 2018 prior to the stock halt for the pending the RTO by Vitality. This resulted in decreasing the purchase consideration payable from $20.0 million to $16.5 million with the following breakdown ('000s).

Promissory notes	$ 2,000
Common shares	14,499
Total purchase price	**$ 16,499**

Following a third-party business valuation of Acenzia's intangible assets, LiveWell allocated the $16.5 million purchase consideration as follows (in '000s):

Net assets acquired	$ 9,661
Goodwill	6,838
Total purchase price	**$ 16,499**

The fair value of the identifiable net assets acquired included the following (in '000s):

Current assets	
Inventory	$ 1,189
Accounts receivable	879
Prepaid expenses	71
	2,139
Non-current assets	
Intellectual property	11,541
Land and Building	2,985
Machinery & Equipment	1,956
Customer relationships	1,249
Computers	55
Furniture & Fixtures	9
	17,795
Total assets acquired	**$ 19,934**
Current liabilities	
Current portion of long-term debt	2,404
Bank indebtedness	2,075
Accounts payable and accrued liabilities	1,157
Customer deposits	271
Current portion of obligations under capital leases	56
	5,962
Non-current liabilities	
Long term debt	372
Due to related parties	371
Deferred tax liability	3,451
Obligation under capital lease	118
	4,311
Total liabilities assumed	**$ 10,274**
Net assets acquired	**$ 9,661**

The following amounts have been measured in context of the Accounts receivable as on December 14, 2018:

- The fair value of the receivables was $0.9 million.
- The gross contractual amounts receivable was $1.3 million.
- The estimated contractual cash flows not expected to be collected were $0.4 million.

Had the acquisition occurred on January 1, 2018, management estimates that LiveWell's proforma consolidated revenue would have increased by $6.2 million and the net loss would have increased by $3.0 million for the twelve months ended December 31, 2018.

8. RESTRICTED SHORT-TERM INVESTMENT

Short-term investment consists of a $125 thousand redeemable term deposit that matured on March 28, 2019, with an annual interest rate of 1.30%. This is collateral to secure the office lease (Note 25). On March 28, 2019, we renewed the redeemable term deposit to $75 thousand.

9. AMOUNTS RECEIVABLE

The breakdown of the amounts receivable was as follows (in '000s):

	December 31, 2018	December 31, 2017
Amounts receivable:		
Promissory note due from related party	**$ 1,997**	$ 1,770
Trade receivable	**1,011**	130
Due from Vitality	**477**	-
Commodity tax receivable	**941**	115
Due from employees	**28**	2
Loans to directors	**-**	60
	4,454	2,077
Provision for doubtful accounts	**(2,017)**	(1,770)
Total amounts receivable	**$ 2,437**	$ 307

In 2017 and early 2018, under a promissory note agreement, we have advanced a cumulative $2.0 million interest free to Delisse Fine Cuisine Inc. ("Delisse"), a family business related to one of the Founders (Note 24). While it was our intention to make a significant equity investment in Delisse in early 2018 to complement our functional food strategy; we modified our strategy to be a dedicated hemp and cannabis company (Note 1). As a result, we ceased funding Delisse's capital expenditure needs. Our promissory note was secured by a general security agreement ("GSA") over Delisse's assets.

In 2018, Delisse sold the majority of its assets and business to a third party ("Private Co") in exchange for 22% equity ownership in Private Co, an organic and natural food manufacturing company based in Ottawa. We agreed to release the GSA on Delisse's assets to facilitate this transaction in return for a security pledge over Delisse's equity ownership in Private Co. Due to lack of available financial

information and visibility on the performance of Private Co to assess recoverability of our $2.0 million promissory note, management continued to carry a full provision at December 31, 2018.

10. PREPAID EXPENSES AND OTHER

The breakdown of prepaid expenses and other is as follows ('000s):

	December 31, 2018	December 31, 2017
Deposit for hemp CBD biomass (Note 25)	$ 3,821	$ -
Prepaid expenses	922	71
Total	**$ 4,743**	**$ 71**

11. INVENTORY

The breakdown of inventory was as follows (in '000s):

	December 31, 2018	December 31, 2017
Raw Material	$ 859	$ -
Work-in-process	143	-
Packaging and supplies	145	32
Finished goods	45	513
	1,192	545
Inventory impairment	(183)	-
Total inventory	**$ 1,009**	**$ 545**

During 2018, we impaired $0.5 million of O'Hemp inventory with a charge to cost of sales due to change in company strategy.

In 2018, a total of $1.38 million (2017 - $0.03 million) of inventories was included as an expense, including $0.5 million (2017 - $0.03 million) resulting from a direct write-down of inventories.

12. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

The following table provides a continuity of our PP&E for the year ended December 31, 2018 (in '000s):

COST

	December 31, 2017	Additions	Additions from Acenzia Acquisition	Disposals	December 31, 2018
Computer equipment	$ -	$ 12	$ 55	$ -	$ 67
Furniture and fixtures	35	5	9	-	49
Production equipment	250	-	1,956	-	2,206
Building and improvements	-	-	2,675	-	2,675
Greenhouse and improvements	7,750	-	-	-	7,750
Vehicles and trailers	112	26	-	-	138
Leasehold Improvements	-	3	-	-	3
Land	1,700	4,654	310	-	6,664
Construction in progress	373	14,905	-	-	15,278
Total	**$ 10,220**	**$ 19,605**	**$ 5,005**	**$ -**	**$ 34,830**

ACCUMULATED DEPRECIATION

	December 31, 2017	Additions	Additions from Acenzia Acquisition	Disposals	December 31, 2018
Computer equipment	$ -	$ 4	$ -	$ -	$ 4
Furniture and fixtures	5	9	-	-	14
Production equipment	-	65	-	-	65
Building and improvements	-	3	-	-	3
Greenhouse and improvements	-	414	-	-	414
Vehicles and trailers	-	25	-	-	25
Leasehold Improvements	-	-	-	-	-
Land	-	-	-	-	-
Construction in progress	-	-	-	-	-
Total	**$ 5**	**$ 520**	**$ -**	**$ -**	**$ 525**
Net Carrying Values	**$ 10,215**	**$ 19,085**	**$ 5,005**	**$ -**	**$ 34,305**

For the year ended December 31, 2018, we capitalized $0.2 million of borrowing costs associated with the construction of the Artiva Cannabis Facility.

Additionally, as part of the land purchase transaction for the Litchfield Project made in April 2018, we have the option to buy the adjacent property of approximately 1,041 acres for $5.0 million on or before June 1, 2019.

The bank indebtedness (see Note 15) grant the lender a general security interest upon all of the assets acquired from Acenzia.

Included in computer equipment is $12 thousand under capital lease, expiring in June 30, 2022 with a cost of $24 thousand and accumulated depreciation of $12 thousand.

Included in production equipment is $146 thousand under capital lease, expiring between October 2021 and August 2022, with a cost of $206 thousand and accumulated depreciation of $60 thousand.

The following table provides a continuity of our PP&E for the 12 months ended December 31, 2017 (in '000s):

COST

	Balance at January 1, 2017	Additions	Additions from Sole Produce Acquisition	Disposals	Balance at December 31, 2017
Furniture and fixtures	$ -	$ 35	$ -	$ -	$ 35
Production equipment	-	-	250	-	250
Greenhouse and improvements	-		7,750	-	7,750
Vehicles and trailers	-	-	112	-	112
Land	-	-	1,700	-	1,700
Construction in progress	-	373	-	-	373
Total	**$ -**	**$ 408**	**$ 9,812**	**$ -**	**$ 10,220**

ACCUMULATED DEPRECIATION

	Balance at January 1, 2017	Additions	Additions from Sole Produce Acquisition	Disposals	Balance at December 31, 2017
Furniture and fixtures	$ -	$ 5	$ -	$ -	$ 5
Production equipment	-	-	-	-	-
Greenhouse and improvements	-	-	-	-	-
Vehicles	-	-	-	-	-
Land	-	-	-	-	-
Construction in progress	-	-	-	-	-
Total	**$ -**	**$ 5**	**$ -**	**$ -**	**$ 5**
Net Carrying Values	**$ -**	**$ 403**	**$ 9,812**	**$ -**	**$ 10,215**

13. INTANGIBLE ASSETS

The following table provides the details of the intangible assets for the year ended December 31, 2018 (in '000s):

COST

(in thousands)	December 31, 2017	Additions from Acenzia Acquisition	Disposals	December 31, 2018
Customer relationships	$ -	$ 1,249	$ -	$ 1,249
Intellectual property rights	-	11,541	-	11,541
Total	**$ -**	**$ 12,790**	**$ -**	**$ 12,790**

ACCUMULATED AMORTIZATION

(in thousands)	December 31, 2017	Additions from Acenzia Acquisition	Disposals	December 31, 2018
Customer relationships	$ -	$ 3	$ -	$ 3
Intellectual property rights	-	30	-	30
Total	**$ -**	**$ 33**	**$ -**	**$ 33**
Net Carrying Values	**$ -**	**$ 12,757**	**$ -**	**$ 12,757**

14. GOODWILL

The following table provides a continuity of goodwill for the years ended December 31, 2018 and 2017(in '000s):

Balance at December 31, 2016	$ -
Acquisition of Sole Produce (note 6)	3,542
Impairment	-
Balance at December 31, 2017	3,542
Acquisition of Acenzia (note 7)	6,839
Impairment	-
Balance at December 31, 2018	$ 10,381

For the purpose of the goodwill impairment review, the (CGU) for the acquisition of Sole Produce is LiveWell's wholly-owned subsidiary, Artiva. Management estimated the recoverable amount of the CGU based on a "value in use" calculation. This entailed the preparation of estimated future cash flows discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money plus a risk margin for the risks associated with the acquired assets.

Subject to obtaining the required licenses from Health Canada for cultivation, processing and distribution of cannabis, management prepared a three-year cash flow projection and incorporated the following key assumptions:

- Revenue projections based on the following key factors:

  - ✓ Cannabis grow space
  - ✓ Average cultivation yields of dry flower
  - ✓ THC extraction readiness
  - ✓ THC extraction yield from dry flower
  - ✓ Average price per gram of dry flower
  - ✓ Average price per gram of THC isolate

- Production cost projections based on headcount, square footage of grow space and flat fee.

- A discount rate of 23% to reflect the high investment risk given the lack of historical experience in cultivating, processing and distributing cannabis, and a terminal value growth rate of 2%.

Based on this "value in use" calculation, management concluded the estimated recoverable amount of the CGU is well in excess of its carrying amount at December 31, 2018, and therefore no impairment charge was recognized for the year ended December 31, 2018.

Goodwill of $6.8 million, recorded in context of the Acenzia transaction on December 14, 2018 reflects the synergies expected to be derived from the Acenzia operations with the other components of LiveWell. Given the short time period from the transaction date and the year-end date, the initial allocation of goodwill to a specific CGU has not been completed as at December 31, 2018. This initial allocation would be made before the end of the first annual period beginning after the acquisition date.

15. BANK INDEBTEDNESS

As part of the acquisition of Acenzia in December 2018, LiveWell has assumed bank indebtedness.

Acenzia has a credit facility of up to $2.1 million with the Toronto-Dominion Bank (TD Bank) based on a financial margin which bears interest at prime plus 0.75%. At December 31, 2018, the outstanding balance was $2.0 million. This facility is currently under forbearance and is repayable on demand to TD Bank. In light of LiveWell's pending closing of its acquisition of Acenzia, TD Bank agreed to extend the forbearance to the end of April 2019. In return, LiveWell has committed to fully repay the credit facility and equipment loans, which amount to $2.2 million.

This facility is secured by a general security agreement on all Acenzia's assets, postponement and assignment of owed amounts to the selling shareholders of Acenzia, subordination priority over BDC's security interest (see Note 18), and personal guarantees of $0.4 million by the selling shareholders of Acenzia.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table provides a breakdown of LiveWell's accounts payable and accrued liabilities for the years ended December 31, 2018 and 2017 (in '000s):

	December 31, 2018	December 31, 2017
Trade payables	**$ 7,835**	$ 918
Accrued liabilities	**272**	624
Payroll liabilities	**139**	-
Total	**$ 8,246**	$ 1,542

The trade payables balance of $7.8 million is comprised of amounts due to suppliers and contractors mainly related to the work done for our Artiva Cannabis Facility and the Litchfield Project last summer. During the first quarter of 2019, we have agreed with most of these creditors a payment schedule for the outstanding balance. One contractor has placed a lien on the Litchfield property for non-payment of $1.6 million for demolition services (see Note 25 under "Contingencies").

17. CAPITAL LEASES

The following is breakdown of LiveWell's capital leases (in '000s):

	Maturity Date	**December 31, 2018**	December 31, 2017
Capital lease obligation bearing interest at 3.10%. Repayable in monthly blended instalments of $4. Secured by related asset with a carrying value of $169.	October 31, 2021	**$ 133**	$ -
Capital lease obligation bearing interest at 1.76%. Repayable in monthly blended instalments of $0.5. Secured by related asset with a carrying value of $15.	August 31, 2022	**22**	-
Capital lease obligation bearing interest at 1.29%. Repayable in monthly blended instalments of $0.5. Secured by related asset with a carrying value of $24.	June 30, 2022	**19**	-
Total borrowings		**174**	-
Less: current portion		**(56)**	-
		$ 118	$ -

The payments for the next five years are as follows:

2019	$	56
2020		58
2021		53
2022		7
	$	**174**

18. BORROWINGS

The following is breakdown of LiveWell's borrowings (in '000s):

(in thousands)	Lender	Maturity Date	December 31, 2018	December 31, 2017
Mortgage payable with a two year term, interest only monthly payment at an annual interest rate of 7.99%; bullet principal payment due at maturity (1)	Private Lender	November 1, 2019	**$ 6,000**	$ 6,000
Mortgage payable with a one year term, interest only monthly payment at an annual interest rate of 8%; bullet principal payment due at maturity (2)	Selling Owner	April 23, 2019	**3,920**	-
Vehicle loan payable with a seven year term bearing an annual interest rate of 5.49%	RBC	October 20, 2024	**85**	100
Loan bearing interest at a floating base rate plus a variance of 1%. Repayable in monthly blended payments of $5.6 thousand plus interest.	BDC	May 31, 2041	**1,495**	-
Loan bearing interest at a floating base rate plus a variance of 1%. Repayable in monthly blended payments of $4.2 thousand plus interest.	BDC	May 31, 2022	**171**	-
Equipment loan bearing interest at a rate of 4.89% repayable with monthly blended payments of $2.6 thousand. Secured by certain assets.	TD Bank	December 31, 2021	**87**	-
Equipment loan bearing interest at a rate of 4.93% repayable with monthly blended payments of $1.5 thousand. Secured by certain assets.	TD Bank	June 30,2021	**43**	-
Loan with an annual interest rate of 6.5%; interest only. Secured by inventories (3)	Private Lender	July 3, 2021	**750**	-
Total borrowings			**12,551**	6,100
Less: current portion			**(12,107)**	(13)
Non-current portion			**$ 444**	$ 6,087

(1) Secured by a first charge on Artiva's land and a general security agreement on all of Artiva's assets. At the maturity, we have the right to renew it for an additional two years at an annual interest rate of prime + 5%.

(2) Secured by a first charge on the Litchfield property. We are currently in active discussion to extend the maturity date of the mortgage by one year.

(3) On March 4, 2019, we issued 0.4 million common shares at $0.84 each to the private lender in exchange for reducing the owed amount by 50% to $0.4 million.

The entirety of the borrowings owed to Business Development Bank of Canada ("BDC") and TD Bank are included in the current portion balance as financial covenants were not met at December 31, 2018 (see Note 29(i)). These borrowings were assumed as part of the Acenzia acquisition.
In addition to the above borrowing, in May 2018 we entered into the following credit facilities (in '000s) with the Bank of Montreal ("BMO Credit Facilities") :

- $400 letter of credit facility;
- $100 foreign exchange contract facility; and
- $50 corporate Mastercard facility.

The BMO Credit Facilities are secured by LiveWell's cash for the amount outstanding. At December 31, 2018, we had no outstanding amount under the BMO Credit Facilities. During the year, we issued a $0.2 million letter of credit to Hydro Québec for a substation project at Litchfield, Québec in connection with the construction of our Research and Innovation Centre.

19. SHARE CAPITAL

a) Preferred Shares

The preferred shares consist of an unlimited number of preferred shares Series 1, 2, and 3, without par value. In connection with the acquisition of Sole Produce in 2017 (see Note 6), we issued the following preferred shares (in '000s):

	December 31, 2018		December 31, 2017	
	# of Shares	**Value**	# of Shares	Value
Preferred Shares - Series 1	**1,068**	**$ 1,000**	1,000	$ 1,000
Preferred Shares - Series 2	**1,068**	**1,000**	1,000	1,000
Preferred Shares - Series 3	**3,605**	**3,605**	3,605	3,605
Total preferred shares	**5,741**	**$ 5,605**	5,605	$ 5,605

In June 2018, the number of preferred shares for Series 1 and 2 was adjusted on a 1:1.0684 share conversion basis as part of the QT (Note 5).

<u>Convertible Preferred shares</u>

The significant terms of the convertible preferred shares are as follows:

- At the holder's sole discretion, Series 1 Preferred Shares may be converted to Livewell common shares at a rate of $0.23399 per share (after share conversion adjustment) on or before January 1, 2023. Accordingly, if fully converted, a total of 4.6 million common shares would be issued.
- At the holder's sole discretion, Series 2 Preferred Shares may be converted to Livewell common shares at a rate of $0.43055 per share (after share conversion adjustment) on or before January 1, 2023. Accordingly, if fully converted, a total of 2.5 million common shares would be issued.
- Not entitled to dividends and no voting rights.

Subsequent to December 31, 2018, some of Series 1 and 2 Preferred Shares were converted by the holders to LiveWell common shares (see Note 29 (e)).

Redeemable Preferred shares

The significant terms of the redeemable Series 3 preferred shares are as follows:

- Not entitled to dividends and no voting rights.
- At LiveWell's sole discretion, it may redeem the Series 3 preferred shares at $1.00 per share.

In the event of liquidation, dissolution, or wind-up of LiveWell, the holders of convertible and redeemable preferred shares shall be paid in preference to the common shareholders.

b) Common Shares

The share capital of LiveWell consists of an unlimited number of common shares, without par value.

The following table provides a summary of the common share activities for the years ended December 31, 2018 and December 31, 2017.

	# of Common Shares ('000s)		Value
Balance at December 31, 2016	26,152	$	985
Share issuances during the year:			
Equity raises	17,598		5,924
Exercised seeding options by consultant	534		125
Exercised seeding options by Founders	8,639		2,022
Purchase of minority interest in LiveWell Quebec	21,285		9,164
Loans to directors for stock purchase	2,029		60
Total share issuances	50,086		17,295
Share issue costs			(644)
Share repurchase from former director	(2,029)		(60)
Balance at December 31, 2017	**74,209**	**$**	**17,576**
Share issuances during the year:			
Equity raises	19,313		8,315
Exercised warrants	11		15
Issuance of units	16,012		13,649
Issuance of common shares for Canopy transaction	17,590		7,573
Issuance of common shares to Percy Street shareholders	3,700		3,463
Exercised stock options	854		298
Total share issuances	57,479		33,313
Share issue costs	-		(1,614)
Balance at December 31, 2018	**131,688**	**$**	**49,275**

Share Issuances

1) Equity raises

For the year ended December 31, 2018, we closed a non-brokered private placement of 18.1 million (adjusted to 19.3 million after the QT) common shares at

$0.46 each for total gross proceeds of $8.3 million, before $0.7 million commissions and other share issuance costs.

For the year ended December 31, 2017, we held several non-brokered private placements resulting in the issuance of 16.4 million (adjusted to 17.6 million after QT) common shares for total proceeds of $5.9 million, before $0.6 million commissions and other share issuance costs.

2) Issuance of units

On June 11, 2018, we closed a brokered private placement resulting in the issuance of 9.4 million (adjusted to 10.0 million after the QT) Units at $1.00 each for gross proceeds of $9.4 million. Each Unit consisted one common share and one-half of one common share purchase warrant of LiveWell. Each warrant is exercisable into one common share at $1.22 each for a period of two years. Additionally, we issued 0.5 million Agent Warrants (a warrant to buy a Unit as defined above) to the lead broker and syndicate. For further details on warrants see below part (c) *Equity Reserves - Warrants*. In connection with this placement, the total cash share issue costs amounted to $0.8 million, which we allocated $0.7 million and $0.1 million to common shares and warrants, respectively.

On September 6, 2018, we closed a non-brokered private placement resulting in the issuance of 4.0 million Units at $1.25 each for gross proceeds of $5.0 million. Each Unit consisted of one common share and one common share purchase warrant of LiveWell (a "Warrant"). Each warrant is exercisable into one common share at $1.50 each for a period of 24 months from the date of closing (see below – part (c) *Equity Reserves - Warrants*). If the volume weighted average price of the common shares on the TSXV is equal to or greater than $2.00 for any 10 consecutive trading days, LiveWell Canada may accelerate the expiry date of the Warrants to the date that is 180 days following the date of such written notice. The total cash share issue costs amounted to $0.2 million, which we allocated $0.1 million and $0.1 million to common shares and warrants, respectively.

On November 21, 2018, we closed a non-brokered private placement resulting in the issuance of 1.9 million Units at $0.80 each for gross proceeds of $1.6 million. Each Unit consisted one common share and one common share purchase warrant of LiveWell. Each warrant is exercisable into one common share at $1.00 each for a period of 24 months from the date of closing (see below – part (c) *Equity Reserves - Warrants*). If the volume weighted average price of the common shares on the TSXV is equal to or greater than $1.50 for any 10 consecutive trading days, LiveWell Canada may accelerate the expiry date of the Warrants to the date that is 180 days following the date of such written notice. The total cash share issue costs amounted to $0.02 million, which we allocated $0.01 and $0.01 to common shares and warrants, respectively.

3) Canopy Transaction

Under the terms of the Investment Agreement, in exchange for Canopy's strategic support services and the offering of financial support and commitment to fund licensing application expenses by Canopy (Note 25), on April 15, 2018, we issued 5.5 million (adjusted to 5.9 million after the QT) common shares to Canopy and 5.5 million (adjusted to 5.9 million after the QT) common shares to Rivers, together representing 10% equity interest in LiveWell at the time. As these shares vested on the issuance date of April 15, 2018, the services to be received from Canopy were recorded as a charge to net loss. Management determined that the fair value of the services to be received cannot be determined reliably and therefore these common shares were measured at the fair value of LiveWell's common shares, which was determined to be $0.46 per share based on the pricing for the March 2018 non-brokered private placement. All negotiations of material terms and conditions of the amended agreement with Canopy were concluded in mid-March 2018. This resulted in $5.0 million charge for the year ended December 31, 2018.

An additional 5.5 million (adjusted to 5.9 million after the QT) common shares, representing an additional 5% equity interest in LiveWell at that time, were placed in escrow and will be released in two equal, separate tranches to Canopy when the following conditions are met.

- Under the terms of the agreement, the first tranche will be released when our wholly-owned subsidiary, Artiva Inc., receives the cultivation license; and
- the second tranche will be released when other wholly-owned subsidiary, LiveWell Foods Québec Inc., receives the cultivation license.

The fair value of the 5.5 million (adjusted to 5.9 million after the QT) common shares held in escrow was valued at $2.5 million and was included in "Other" in the non-current assets section of the consolidated statements of financial position for $2,524 on April 15, 2018.

See Note 25 under "Contingencies".

4) Qualifying Transaction ("QT")

As disclosed in Note 5, we completed the QT in June 2018, which resulted in increasing LiveWell's outstanding common shares by 3.7 million for Percy Street shareholders.

5) Seeding shares/options for Founders

On March 1, 2017, the Board of Directors approved the following stock option grants to the founders (also directors and officers) of LiveWell (in '000s except exercise price).

Founders	Number of Options	Number of Options (adjusted for QT)	Exercise Price
Tim McCunn	4,010	4,284	$ 0.0001
Peter Abboud	2,038	2,177	$ 0.0001
Seann Poli	2,038	2,177	$ 0.0001
Total	8,086	8,639	

These options were not granted under a stock option plan. The options were granted to rebalance the total ownership percentage between the founders and new shareholders to an 80%/20% ratio respectively, after the equity raise during the first quarter of 2017. The options vested immediately and were exercised, resulting in the issuance of 8.1 million (adjusted to 8.6 million after the QT) common shares. The estimated fair value was $2.0 million. This was accounted for as an equity transaction and therefore the increase in common shares was offset by an equal reduction in reserve (see part (d) below).

6) Seeding options for Consultant

On March 1, 2017, the Board of Directors granted 1.1 million (adjusted to 1.2 million after the QT) options at an exercise price of $0.0001 each to a consultant who was instrumental and contributed significantly in the start-up of LiveWell. The vesting of these options was set as follows: 0.5 million (adjusted to 0.5 million after QT) options immediate, 0.3 million (adjusted to 0.3 after QT) options on December 31, 2018, and 0.3 million (adjusted to 0.3 million after QT) options on December 31, 2019. As the 0.5 million (adjusted to 0.5 million after QT) options were immediately converted to common shares, we have set the fair value at $0.25 each. For the remaining two tranches, the estimated fair value was also $0.25 each based on the following key assumptions used in the Black-Scholes option pricing model:

Expected life, in years	2.5
Volatility	74%
Risk free interest rate	1.15%
Anticipated forfeiture	0%
Dividend yield	0%
Closing stock price at grant date	$ 0.25

During 2017, we recognized $0.2 million of share-based compensation cost for the above options (in addition to the share-based compensation charge under the 2017 Stock Option Plan noted below).

7) Purchase of minority interest in LiveWell Quebec

On December 31, 2017, we acquired the remaining 45% ownership interest of LiveWell Québec by issuing 19.9 million (adjusted to 21.3 million after QT) common shares from treasury to the selling shareholders. We made this investment to fully own the company prior to making the anticipated large capital investment for the Litchfield project and to better position LiveWell in the marketplace.

Share Repurchase

In February 2017, we repurchased 1.9 million (adjusted to 2.0 million after QT) LiveWell common shares from a former director for a total cash consideration of $0.06 million. The purchase price was paid by delivery of a promissory note. The repurchased shares and the obligation to repay the note were subsequently assigned to the Founders. LiveWell repaid the note and entered into a loan agreement with each or the Founders. The loans bear 10% interest per annum. The Founders have repaid the principal amount of the loans prior to the Qualifying Transaction.

c) Equity Reserves

Share-Based Payments

Prior to QT (Note 5), Percy Street had in place an incentive stock option plan ("Option Plan") for its directors, employees, and consultants, pursuant to which Percy Street could grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares. At a meeting of shareholders held on April 5, 2018, a rolling 10% Stock Option Plan was approved. Immediately prior to closing the QT, and after reflecting share capital consolidation on a 3:1 basis (see Part B – *Common Shares*), there were 0.4 million options outstanding at an exercise price of $0.30 each, expiring on December 21, 2020 and fully vested.

Prior to QT, LiveWell Foods Canada Inc. ("LiveWell Foods") had implemented a 2017 Stock Option Plan. Pursuant to this option plan, the Board could at its sole discretion grant non-transferable options to purchase common shares of LiveWell Foods to directors, officers, employees, and consultants provided that the number of common shares reserved for issuance did not exceed 20% of the issued and outstanding common shares. Options granted under this plan expire in five years and generally vest over four years. Immediately prior to closing the QT, there were 15 million options outstanding at an exercise price of $0.46 each, with a five-year life.

Upon closing the QT, LiveWell's total outstanding common shares and stock options were converted to LiveWell Canada's securities at a share conversion rate of 1:1.0684. As a result of being subject to the Percy Street's Option Plan at the closing of QT, we had 4.0 million options in excess of the limit imposed by its stock option plan. Consequently, LiveWell has provided an undertaking to the TSX-V to restrict the exercise of stock options to an aggregate of 12.5 million options or 10% of the issued and outstanding shares until disinterested shareholder approval is obtained in a separate resolution for the 4.3 million options exercisable at $0.43 that have above issued over the 10% limit. At the Annual General and Special Meeting of Shareholders held on December 13, 2018, our shareholders approved the above stock options over-allotment resolution, in addition to the new stock option plan to convert the 10% "rolling" plan into a 20% fixed option plan. Accordingly, pursuant to the new stock option plan, we may grant stock options to employees, officers, consultants and directors up to 25.9 million options to purchase common shares of LiveWell. At December 31, 2018, 9.6 million options were available for future grants.

The following table provides a summary of the changes to LiveWell's stock option plan for the year ended December 31, 2018:

	Number of Options (in 000s)	**Weighted Average Exercise Price (1)**
Outstanding, beginning of year	**13,898**	**$ 0.43**
QT adjustment	**1,035**	**$ 0.43**
Granted to Percy Street under QT	**370**	**$ 0.30**
Granted	**1,550**	**$ 0.43**
Exercised	**(213)**	**$ 0.40**
Forfeited	**(300)**	**$ 0.43**
Expired	**-**	**$ -**
Outstanding, end of year	**16,340**	**$ 0.43**
Exercisable options	**10,466**	**$ 0.43**

(1) Adjusted for the share conversion rate under the QT

Excluding the options granted under the QT, we granted 1.6 million options during the year ended December 31, 2018, including 1.3 million options (adjusted to 1.4 million options after QT) to the newly hired Chief Financial Officer (CFO), exercisable at $0.46 each (adjusted to $0.43 after QT) and expiring in five years. The vesting provision for the CFO stock options were subject to service and performance conditions as follows:

- 0.1 million options on January 22, 2018 (acceptance of employment offer);
- 0.7 million options upon successful listing of LiveWell's common shares on the TSX-V (performance based);
- 0.3 million options on December 31, 2018 (service based); and
- 0.3 million options on December 31, 2019 (service based).

At the grant date for the CFO stock options, we estimated a fair value of $0.20 each, based on the following key inputs used in the Black-Scholes option pricing model:

Expected life, in years	2.5
Volatility	70%
Risk free interest rate	1.87%
Anticipated forfeiture	0%
Dividend yield	0%
Estimated stock price	$ 0.46

As LiveWell Foods was not a public company at the time of granting the above options, we estimated volatility by using the historical volatility of comparable publicly traded companies in our industry.

For the year ended December 31, 2018, we have recorded $1.2 million of share-based compensation expense in the P&L.

The following is a summary of the outstanding stock options at December 31, 2018:

Options Outstanding			**Options Exercisable**	
Number Outstanding at December 31, 2018 ('000s)	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Number Exercisable at December 31, 2018 ('000s)	Range of Exercise Prices
16,023	4.01	0.43	10,150	0.43
317	1.98	0.30	317	0.30
16,340	3.97		10,467	

The following table provides a summary of the outstanding stock options as at December 31, 2017, prior to the share conversion adjustment for the QT.

	Number of Options (in 000s)	**Weighted Average Exercise Price**
Outstanding, beginning of year	-	$ -
Granted	**13,898**	**$ 0.46**
Exercised	-	$ -
Forfeited	-	$ -
Expired	-	$ -
Outstanding, end of year	**13,898**	**$ 0.46**
Exercisable options	**6,600**	**$ 0.46**

At December 31, 2017, the Board approved a total grant of 7.7 million options for directors, executives, employees, and consultants. These options expire in five years and vest 25% per annum, except for 0.3 million options which vested immediately. We estimated a fair value of $0.20 each at the grant date, using the Black-Scholes option pricing model by applying the following key assumptions:

Expected life, in years	1.0 to 2.5
Volatility	70%
Risk free interest rate	1.87%
Anticipated forfeiture	0 to 15%
Dividend yield	0%
Closing stock price at grant date	$ 0.46

Additionally, on December 31, 2017, we granted 6.2 million options exercisable at $0.46 each to two designees of a corporate advisory firm for consulting services in return for it to forego the 5% transaction incentive fee under a Corporate Event or Liquidity Event as defined under the original agreement dated February 13, 2016 and subsequently amended on March 15, 2017. These options vested immediately and expire in five years.

For the year ended December 31, 2017, we have recorded $1.3 million of share-based compensation expense in the P&L for the above options, in addition to the $0.2 million share-based compensation charge relating to the seeding options for a consultant (as noted above under *Share Issuances: Seeding options for Consultant*).

Warrants

As previously noted under part (a) – *Share Issuances: Brokered Private Placement*, we issued warrants during the year ended December 31, 2018. The following table provides a summary of the warrants issued, the related fair value, and key assumptions to calculate fair value.

- On June 11, 2018, we issued one-half warrant for each Unit, or 5 million (adjusted to 4.7 million after QT) warrants. Each warrant is exercisable into one common share at $1.22 each for a period of two years. The fair value of one warrant at the date of the closing was estimated at $0.20 each, or $0.10 for one-half warrant, based on the following key assumptions used in the Black Scholes valuation model:

Exercise price	**$1.22**
Expected life	2 years
Dividends	Nil
Volatility	60%
Risk free interest rate	2%

In addition, we issued 0.5 million Agent Warrants to the lead broker and syndicate. Each Agent Warrant consisted one Unit of LiveWell, as defined above (each Unit at $1.00 each allows to purchase 1 common share and 1/2 warrant at $1.22 for two years). The fair value of one Agent Warrant at the date of the closing was estimated at $0.34 each based on the following key assumptions used in the Black Scholes valuation model:

Exercise price	**$1.00**
Expected life	2 years
Dividends	Nil
Volatility	60%
Risk free interest rate	2%

- On September 6, 2018, we issued one warrant for each Unit, or 4.0 million warrants. Each warrant is exercisable into one common share at $1.50 each for a period of two years. The fair value of one warrant at the date of the closing was estimated at $0.24 each, based on the following key assumptions used in the Black Scholes valuation model:

Exercise price	**$1.50**
Expected life	1 year
Dividends	Nil
Volatility	90%
Risk free interest rate	2%

- On November 21, 2018, we issued one warrant for each Unit, or 1.9 million warrants. Each warrant is exercisable into one common share at $1.00 each for a period of two years. The fair value of one warrant at the date of the closing was estimated at $0.15 each, based on the following key assumptions used in the Black Scholes valuation model:

Exercise price	**$1.00**
Expected life	1 year
Dividends	Nil
Volatility	90%
Risk free interest rate	2.29%

The following table provides a summary of the changes to LiveWell's warrants (excluding agent warrants) for the year ended December 31, 2018:

	Number of Warrants (in 000s)		**Weighted Average Exercise Price**
Outstanding, beginning of year	**-**	**$**	**-**
Issued	**10,970**	**$**	**1.28**
Exercised	**(11)**	**$**	**1.22**
Expired	**-**	**$**	**-**
Outstanding, end of year	**10,959**	**$**	**1.28**

Shares to be issued

This relates to the fair value of the 21.4 million common shares to be issued to the selling shareholders of Acenzia(see note 7).

Other Reserve

The other reserve account relates to the offset for the fair value of the 8.1 million (adjusted to 8.6 million after QT) seeding options / shares issued to the Founders on March 1, 2017, the fair value of 19.9 million (adjusted to 21.3 million after QT) common shares issued to the minority shareholders of LiveWell Québec (see above *Share Issuances*).

20. NET LOSS PER SHARE

The following securities could potentially dilute basic net loss per share in the future but have not been included in diluted per share because their effect was anti-dilutive (in ‘000s).

	December 31, 2018	December 31, 2017
Convertible preferred shares - Series 1	**4,645**	4,000
Convertible preferred shares - Series 2	**2,485**	2,174
Stock options per Option Plan	**16,340**	7,698
Warrants	**10,959**	-
Agent warrants	**729**	-
Seeding stock options	**-**	600
Potential additional common shares	**35,158**	14,472

Refer to Note 19 for further details on the above securities. Also see Note 29(h) for additional stock options granted during the first quarter of 2019. The number of shares as shown in the financial statements are prior to the impact of the 15 to 1 share consolidation (Note 29(g)). Considering the effect of the 15 to 1 share consolidation, the net loss per share would be $2.53 for the year ended December 31, 2018 and $1.96 for the year ended December 31, 2017.

21. INCOME TAXES

a) Reconciliation of effective income tax rate

LiveWell’s effective income tax rate differs from the statutory rate of 26.6% (2017 – 26.5%) that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to income (loss) before income taxes. These differences result from the following (in ‘000s):

	December 31, 2018	December 31, 2017
Loss before taxes	**$ (18,980)**	$ (5,763)
Statutory tax rate	**26.6%**	26.5%
Expected tax benefit resulting from loss	**5,052**	1,527
Non-deductible expenses and other	**(1,356)**	(431)
Increase in tax rate	**(42)**	-
Non-taxable portion of capital gains	**-**	-
Other	**477**	-
Deductable temporary differences for which no deferred tax asset is recognized	**(4,131)**	(1,059)
Income tax (expense) recovery	**$ -**	**$ 37**

b) Breakdown of deferred tax liability

The effect of temporary differences that give rise to significant portions of the deferred tax liability, which has been recognized during the year ended December 31, 2018 are as follows ('000s):

	2018			
	Opening	**Acquisitions**	**Recognized in net income**	**Closing balance**
Deferred tax liability:				
Fixed assets	$ (1,068)	$ (3,451)	(305)	**$ (4,824)**
Deductible provisions	186	-	(186)	**-**
Financing Fees	42	-	6	**47**
Losses carried forward	-	-	485	**485**
	$ (840)	**$ (3,451)**	**$ -**	**(4,291)**

c) Unrecognized net deferred tax assets

Deferred taxes reflect the impact of loss carryforwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax laws. However, we have not recorded net deferred tax assets at December 31, 2018, and 2017, due to the uncertainty involved in determining whether these deferred tax assets will be realized before expiration as a result of LiveWell's limited history and operating losses since its inception.

The following is a summary of LiveWell's deductible temporary differences and unused tax losses for which no deferred tax asset has been recognized at December 31, 2018 and 2017 (in '000s):

	December 31, 2018	December 31, 2017
Losses carried forward	**$ 14,781**	$ 2,887
Amounts receivable	**2,000**	1,770
Deposits for property	**-**	70
Fixed assets	**235**	5
Share issue costs	**2,078**	525
	$ 19,094	$ 5,257

d) Unrecognized non-capital tax losses

As at December 31, 2018, LiveWell has the following non-capital losses in Canada available to reduce future year's taxable income which expires as follows:

2036	$ 697
2037	769
2038	13,315
Total	**$ 14,781**

22. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial Risk Management Objectives and Policies

In the normal course of business, we are exposed to a variety of financial risks: credit risk, liquidity risk, and interest rate risk. These financial risks are subject to normal credit standards, financial controls, risk management as well as monitoring. LiveWell's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit risk

Credit risk arises from cash and term deposits held with banks and amounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. We minimize the credit risk of cash and term deposit by depositing with only reputable financial institutions. We also assess the credit quality of counterparties, taking into account their financial position, past experience and other factors.

Cash consists of bank balances. Credit risk associated with cash is minimized substantially by ensuring that these financial assets are held with reputable financial institutions.

Credit risk on trade receivable is also managed actively by monitoring regularly its aging and concentration by customer. Amounts due from related parties are viewed as having low credit risk based on the relationship we have with the related parties and management's understanding of the counterparty's business.

Liquidity risk

Liquidity risk is the risk that we will not be able to meet LiveWell's financial obligations as they fall due. We manage liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

The following table reflects the maturities of our financial liabilities at December 31, 2018 (in '000s).

Payment due:	Total	Within 1 Year	1 to 3 years	3 to 5 years	> 5 years
Borrowings	**$ 12,551**	$ 12,107	$ 415	$ 29	$ -
Accounts payable & accrued liabilities	**8,246**	8,246	-	-	-
Customer deposits	**2,111**	-	-	-	-
Bank indebtedness	**2,031**	-	-	-	-
Due to Acenzia selling shareholders	**2,000**	2,000	-	-	-
Total financial liabilities	**$ 26,939**	**$ 22,353**	**$ 415**	**$ 29**	**$ -**

Refer to Note 2(a) "Going Concern" for management current plan to raise additional liquidity in the near term, coupled with management expectation to generate positive cash flows in 2019 with the Acenzia acquisition and Vitality RTO. Further, we raised additional capital during the first quarter of 2019 (see Note 29 (b) and (c)).

Interest rate risk

Our exposure to interest rate risk is limited to any investments of surplus cash and borrowings. We may invest surplus cash in highly liquid investments with short term maturities.

Interest rate risk on borrowings is limited due to $1.7 million of loans subject to floating interest rate (see Note 18). A 2% change in interest rate would have a negligible adverse impact to LiveWell's operating results.

Capital Management

Our key objectives when managing capital are to maintain a strong capital base in order to:

- Maintain investor, creditor, and market confidence;
- Advance LiveWell's corporate strategies to generate attractive risk-adjusted return over the long-term for our shareholders; and
- Sustain LiveWell's operations and growth though all cycles.

The Board and senior management monitor LiveWell's capital and capital structure on a regular basis to ensure it is sufficient to achieve LiveWell's short-term and long-term objectives. The capital structure may vary from time to time based on changes in economic conditions.

Our capital resources consisted of the following (in '000s):

	December 31, 2018	December 31, 2017
Borrowings (drawn)	**$ 12,551**	$ 6,100
Preferred shares	**5,605**	5,605
Common shares	**49,275**	17,576
Share-based payments	**2,592**	1,377
Warrants	**2,193**	-
Reserve- other	**(11,186)**	(11,186)
Less: deficit	**(25,277)**	(6,297)
Total capital resources	**$ 35,753**	$ 13,175

Given the lack of earnings, LiveWell has no intention of declaring dividends in the next 12 months.

23. FINANCIAL INSTRUMENTS

The table below summarizes the carrying values of LiveWell's financial assets and financial liabilities (in '000s):

	December 31, 2018	December 31, 2017
Financial assets:		
At amortized cost		
Cash	**$ 1,195**	$ 1,230
Restricted short-term investment	**125**	-
Amounts receivable	**2,437**	307
Total financial assets	**$ 3,757**	$ 1,537
Financial liabilities:		
At amortized cost		
Bank indebtedness	**$ 2,031**	$ -
Accounts payable and accrued liabilities	**8,246**	1,542
Loans from related parties	**371**	-
Promissory notes to Acenzia selling shareholders	**2,000**	-
Borrowings	**12,551**	6,100
Subscription deposits	**-**	353
Customer deposits	**2,111**	-
Total financial liabilities	**$ 27,310**	$ 7,995

24. RELATED PARTIES

a) Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of LiveWell. The key management personnel of LiveWell are the executive management team and Board of Directors, who collectively control approximately 31% of the issued and outstanding common shares of LiveWell at December 31, 2018.

Compensation (including benefits) provided to the key management personnel is as follows (in '000s):

	December 31, 2018	December 31, 2017
Management cash compensation	**$ 1,334**	$ 461
Share-based compensation	**1,041**	60
Directors cash compensation	**261**	60
	$ 2,636	$ 581

b) Transactions with other related parties (in '000s):

		December 31, 2018		December 31, 2017
Financing				
Advances to Delisse [1]	**$**	**230**	$	1,770
Advances to Vitality CBD Natural Health Products Inc. [2]		**477**		-
Loan from Excelins Consulting Inc. [7]		**125**		-
Purchase of goods and services				
Rent[3]	**$**	**-**	$	11
Legal fees[4]		**616**		407
Prepaid royalty payments to Relief Effects[5]		**184**		-
Purchase of equipment for cannabis facility[6]		**54**		-

(1) Delisse Fine Cuisine ("Delisse") is a related party as it is owned by Mr. Peter Abboud, Co-Founder, Special Advisor and Director of LiveWell. Additionally, Mr. Abboud's brother owns certain preferred shares of LiveWell as a result of the sale of Sole Produce to LiveWell on December 31, 2017 (see Note 6).
(2) See "Subsequent Events" – Note 29 (a). Certain LiveWell's executive officers and directors have equity ownership in Vitality.
(3) We have rented accommodation for visiting executives from a party related to Mr. Peter Abboud.
(4) LiveWell's Chairman is a partner with the law firm, Perley-Robertson, Hill & McDougall LLP in which we have received corporate, M&A and listing legal services. These services were at arm's length and market based.
(5) See "Commitments and Contingencies" note.
(6) We have purchased equipment from a party related to a senior employee of LiveWell. The purchase was negotiated at arm's length and at market rate – the transaction was approved by LiveWell's CFO.
(7) Excelins Consulting is owned by a current employee of LiveWell. Lending was negotiated at arm's length and at market rate – the transaction was pre-approved by LiveWell's CFO.
(8) Unless otherwise stated, none of the above transactions incorporate special terms and conditions. Outstanding balances are settled in cash.

c) Breakdown of amounts due from (to) related parties (in '000s):

	December 31, 2018	December 31, 2017
Included in Amounts receivable:		
Due from directors	**$ 28**	$ -
Loans to directors (see Note 19(b))	**-**	60
Delisse Fine Cuisine Inc. ("Delisse")		
Amount due from Delisse	**2,000**	1,770
Provision for doubtful account	**(2,000)**	(1,770)
	$ -	$ -
Included in Prepaid expenses and Other:		
Receivable from Relief Effects Inc.	**$ 185**	$ -
Deposits for hemp CBD biomass- Vitality	**3,321**	-
Advances to Vitality	**477**	-
	$ 3,983	$ -
Included in Accounts payable and accrued liabilities:		
Perley-Robertson, Hill & McDougall LLP (law firm)	**$ 184**	$ 239
Due to directors	**42**	-
Due to Acenzia selling shareholders (see Note 7)	**$ 2,000**	$ -
Included in Loans from related parties:		
Due to Acenzia selling shareholders	**$ 371**	$ -

Except for the loans to directors (see Note 19(b)), all amounts due from (to) related parties bear no interest, were unsecured and had no fixed terms of repayment.

d) Acquisition of Sole Produce

As disclosed in Note 6, we acquired Sole Produce on December 31, 2017. Sole Produce was a family farming business related to one of the Co-Founders, Mr. Peter Abboud. The purchase consideration was negotiated at arm's length and approved by LiveWell's Board.

e) Acquisition of 45% minority interest in LiveWell Québec

LiveWell Québec was incorporated on September 5, 2017, in which LiveWell was initially a 55% shareholder. LiveWell acquired the remaining 45% minority interest on December 31, 2017. The majority of the 45% selling shareholders were also executives of LiveWell. The acquisition of the 45%

minority interest was negotiated at arm's length by the Founders of LiveWell, the majority shareholders of LiveWell at the time.

As the acquisition of the 45% minority interest did not result in a change of control, the acquisition was accounted for as an equity transaction under IFRS 10 (see Note 19(c)).

f) Licensing Agreement with Relief Effects Inc. ("Relief Effects")

As disclosed in Note 25, we have entered into a licensing agreement with Relief Effects, which is a related party because certain directors and officers of LiveWell collectively own over 90% of the voting common shares of Relief Effects Inc.

For the years ended December 31, 2018 and 2017, no royalty payments were made to Relief Effects.

g) Personal Use of Company Vehicle

As part of the acquisition of Sole Produce on December 31, 2017, we assumed a high-end vehicle and related loan financing (see Note 18). During the year ended December 31, 2018, Mr. Peter Abboud reimbursed $10 thousand to LiveWell for the personal use of this vehicle.

25. COMMITMENTS AND CONTINGENCIES

Commitments

For the year ended December 31, 2018, we entered into the following commitments:

Office Lease Commitment

On March 14, 2018, we entered an office lease agreement in Gatineau, Québec, for two years with a right of renewal. The future minimum lease payments due in each of the next five years are as follows (in '000s):

2019	$	286
2020		215
2021		-
2022		-
2023 and thereafter		-
Total	**$**	**501**

The office lease agreement is collateralized by a $0.1 million letter of credit. This amount was reduced to $75 thousand for the second year of the term of the lease agreement. The letter of credit is secured by a one-year redeemable term deposit (Note 8).

Supply Commitments

a) Supply of Hemp-Derived CBD Commitment – Global Wellness Distributors LLC.

On October 27, 2018 we signed a binding term sheet with Global Wellness Distributors, LLC ("Global Wellness"), a Nevada entity controlled by a U.S. private equity firm, for the supply of

cannabidiol (CBD) wholesale products in North America. The key terms of the term sheet include the following:

- The term will be a period of 15 months with an option for four renewable one-year terms.
- Global Wellness commits to distribute CBD isolate, distillate and full spectrum CBD oil at a minimum aggregate quantity of 1,000 kilograms per month from LiveWell.
- Starting April 2019 to March 2020, the minimum quantity increases to 3,000 kilograms per month, for a total minimum quantity of 39,000 kilograms over the 15-month contract period.

Due to the delays in scaling production by our CBD provider (Vitality) to meet the above monthly minimums, we mutually agreed to delay the execution of a supply agreement.

b) Supply of Hemp-Derived CBD Commitment – Tilray Inc.

On December 17, 2018, we signed a binding term sheet to supply Tilray Inc. (“Tilray”) with hemp-derived CBD isolate in North America. On February 1, 2019, we finalized the CBD supply agreement with Tilray, in which LiveWell agreed to initially provide 150 kilograms (kgs) per month of wholesale CBD isolate, or an equivalent amount of full spectrum CBD extract, cultivated and processed from hemp, and meeting jurisdictional regulations. As of August 2019, the monthly commitment increases to 300 kgs, with an option to increase to 500 kgs per month. The supply agreement is for 12 months, at which time it will automatically renew for successive 12-month terms unless either party has opted out of such renewal. At the request of Tilray, we have delayed the shipment of CBD products until the second quarter of 2019.

Purchase Commitments

a) Cannabis Facilities

We have entered purchase commitments amounting to $0.2 million for the cannabis facility project in Ottawa, Ontario and $0.9 million for the global innovation center project in Litchfield, Québec. We expect the equipment to be delivered in 2019 when we resume the project and will be payable shortly after delivery.

b) Purchase of Industrial Hemp Biomass with Vitality

On August 2, 2018, and further amended on September 10, 2018, we entered into an agreement with Vitality to purchase 1,000 acres of industrial hemp biomass to be harvested from farmland located in Alberta for total cash consideration of USD$10 million payable over a payment schedule as defined in the agreement. To date, total payment of US$2.5 million or $3.8 million have been made. In light of the Vitality RTO, both parties agreed to revisit this transaction post RTO.

Contingencies

Trademark Infringement

On April 20, 2018, we received a letter on behalf of a Colorado-based cannabis company, asking us to cease all use of LIVEWELL in the marijuana business. We note that both parties have pending trademark applications before the Trademarks Office. The Colorado-based company is not licensed to sell cannabis in Canada and to our knowledge has not used their LIVWELL trademark in Canada. We have replied asking the Colorado-based company to confirm if they have used their

trademark in Canada, and if so, to provide us with evidence of use and their date of first use. Based on the evidence that we have been provided with to date, we do not believe that the Colorado-based company has any significant goodwill or reputation in Canada in association with the LIVWELL mark, or any use of the LIVWELL mark in Canada.

In light of the change in company name to Eureka 93 Inc., we expect this trademark claim will be dismissed by the LIVWELL in 2019.

Cannabis Purchase and Sale Transaction with Canopy Growth and Canopy Rivers ("Canopy Transaction")

On November 22, 2017, LiveWell entered into an arrangement with Canopy Growth Corporation ("Canopy") and Canopy Rivers ("Rivers") consisting of three agreements: an Investment Agreement, a Royalty Agreement and an Offtake Agreement, (which agreements were amended on April 2, 2018) which provide as follows:

(i) Canopy shall provide strategic and logistical support to LiveWell including regulatory support to further ACMPR license at both the Artiva location and LiveWell Québec location;

(ii) In return, LiveWell shall issue 15% of LiveWell's fully diluted total common shares at March 31, 2018 and effective April 15, 2018 with 5% to be held in escrow pending licensing at each location (Artiva and Litchfield sites) – see Note 19(b);

(iii) Rivers had offered a $20 million convertible financing facility to LiveWell. LiveWell declined this financing offer as the conversion term was no longer in the best interest of LiveWell as result of LiveWell's stock price being much higher than the conversion rate;

(iv) Canopy has the option to purchase up to a maximum fixed percentage of the annual cannabis production at the Artiva facility for a period of 20 years at certain set prices (based on agreed formulas); and

(v) Rivers shall also receive a nominal royalty on cannabis purchased by Canopy.

On April 3, 2019, LiveWell received notice from Canopy and Rivers alleging, among other things, that LiveWell had breached a number of covenants in favour of Canopy and Rivers under the Agreements, including allegation that LiveWell failed to provide notice to Canopy of the proposed merger of LiveWell, Vitality CBD National Health Inc. and Mercal Capital Corporation (see Notes 1 and 29 (f)). Canopy and Rivers have taken the position that they are terminating the Agreements.

It is LiveWell's position that Canopy and Rivers have missed a key milestone in two of the Agreements around obtaining the ACMPR license at both the Artiva location and LiveWell Québec location. Management believes there is no factual basis for the position taken by Canopy and Rivers, that their claims are tactical, and that Canopy and Rivers are in breach of all of the Agreements for, amount other things, failing in their obligation to assist Artiva and LiveWell Québec in obtaining the ACMPR license, entitling LiveWell and Artiva to terminate the Agreements. Management strongly believes the allegations and claims put forward by Canopy and Rivers are frivolous, and disputes the positions taken by Canopy and Rivers with respect to termination of the Agreements. LiveWell will vigorously pursue its rights through the dispute resolution process set out in the Agreements.

Non-payment of Demolition Services

On February 20, 2019, Delsan-A.I.M. Environmental Services Inc. (“Delsan”), based in Montreal, Québec, initiated legal proceedings against Livewell Foods Québec Inc. (“LiveWell Québec”), a wholly-owned subsidiary, for non-payment of $1.6 million for demolition services rendered between June 2018 to October 2018 at LiveWell Québec’s Litchfield site. We have accrued this liability and intend to settle in the near term following a successful capital raise and/or positive operating cash flows following the reverse takeover by Vitality (see Note 29).

Licensing Agreement with Relief Effects Inc.

On September 1, 2017, we entered into an exclusive licensing agreement with Relief Effects Inc. for the intellectual property surrounding extraction, isolation, and infusion technologies in Canada only (see Note 24). These technologies will enable us to process cannabis and hemp extracts and isolates that will be used in the formulation of numerous functional food products, edibles, and infusions. In return for accessing these technologies, we agreed to pay a 10% royalty based on LiveWell’s future gross products revenue generated from the use of Relief Effects technology.

26. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital items are as follows (in ‘000s):

	December 31, 2018	December 31, 2017
Amounts receivable	**$ (1,555)**	$ (1,898)
Inventory	**235**	(564)
Prepaid expenses	**(4,672)**	-
Other assets	**134**	-
Accounts payable & accrued liabilities	**5,548**	240
Customer deposits	**1,840**	-
Changes in non-cash working capital	**$ 1,531**	$ (2,222)

Non-cash transactions for the year ended December 31, 2018:

- The issuance of common shares for the Canopy Transaction (see Note 19(b)).
- The share conversion adjustment to preferred shares and common shares in connection with the QT (Note 19(a) and (b)).
- The shares to be issued to Acenzia’s selling shareholders (see Note 7)

Non-cash transactions for the year ended December 31, 2017:

- The issuance of convertible preference shares (Series 1 and 2) and the redeemable preference shares (Series 3) in connection with the acquisition of Sole Produce (see Note 6).
- The issuance of 19.9 million common shares in the amount of $9.1 million for the acquisition of the minority interest in LiveWell Foods Québec (see Note 19(b)).
- The loans to the Founders to purchase common shares from LiveWell (Note 19(b)).

27. SEGMENTED INFORMATION

For the year ended December 31, 2017, management determined that LiveWell operated only in one segment: the cultivation and sale of agriculture products (vegetable produce).

While the acquisition of Acenzia (Note 7) on December 14, 2018 expanded LiveWell's business operations, the two weeks of operating results were insignificant and not reviewed separately by the Chief Operating Decision Maker (CODM). Further, LiveWell is still waiting for its Health Canada license for cultivating, processing and distributing hemp-based cannabidiol (CBD) and cannabis products. No revenue was generated from the latter business. Accordingly, management determined that LiveWell's reporting segment is the same segment as in 2017.

All revenues in 2017 and 2018 were generated in Canada. All the property, plant and equipment and intangible assets are located in Canada.

28. EXPENSES BY NATURE

We have presented operating expenses on the face of the Consolidated Statements of Net Loss and Comprehensive Loss using a classification based on the following functions: "Cost of sales", "G&A", "S&M", and "R&D". We also presented other material other operating expenses separately as they were deemed to be items of dissimilar function. The following table provides a breakdown of LiveWell's operating expenses for the years ended December 31, 2018 and 2017.

(in thousands)	**Year Ended December 31, 2018**	Year Ended December 31, 2017
G&A:		
Professional fees	**$ 2,189**	$ 1,337
Employee compensation and benefits	**2,011**	500
Office expenses	**794**	112
Insurance expense	**259**	6
Travel and other employee expenses	**387**	106
Bad debt	**247**	1,770
Other	**127**	68
Total G&A	**6,015**	3,899
R&D		
Employee compensation and benefits	**$ 254**	-
Professional fees	**23**	16
Office expenses	**3**	-
Other	**16**	-
Total R&D	**296**	16
Sales & Marketing:		
Employee compensation and benefits	**$ 338**	$ 103
Professional fees	**110**	-
Travel and other employee expenses	**61**	-
Advertising promotions	**58**	193
Office expenses	**2**	-
Other	**8**	22
Total S&M	**577**	318
Non-cash charge for Canopy Transaction	**5,049**	-
Share-based compensation	**1,226**	1,515
Depreciation	**533**	5
Total operating expenses	**$ 13,696**	$ 5,753

29. SUBSEQUENT EVENTS

a) Loan to Vitality

In February 2019, we entered into a promissory note agreement with Vitality ("Vitality Note") to transfer prior unsecured advances to Vitality. Future advances will also be made under the provision of this Vitality Note. On April 25, 2019, the total outstanding amount was $6.7 million. This Vitality Note bears interest rate of 15% per annum and is repayable after six months from the closing date of the Amalgamation. As security for this Vitality Note, Vitality has agreed to grant to LiveWell a general security agreement encumbering all of the property, assets and undertaking of Vitality in favour of LiveWell.

b) Bridge Financing

On February 19, 2019, we completed a brokered private placement of US$3 million of Senior Secured Convertible Note, which are convertible into our common shares at CAN$0.74 ("Bridge Notes"). This was a bridge financing to allow more time to close the brokered private placement (see point below). After agent fees and professional fees, the net proceeds were US$2.5 million. The Bridge Notes, secured against various company assets, accrue guaranteed interest at 10% per annum and have a maturity date of February 14, 2020. In addition to the Notes, the investors received warrants from Vitality to purchase 3 million common shares of Vitality priced at US$1.00 each. We assumed these warrants upon closing the amalgamation. We may prepay the Bridge Notes at a 3% premium on 10 trading days' notice. The payment of the Bridge Notes is amortized in six equal monthly payments beginning on September 1, 2019. The Bridge Warrants may be put back to us by the holder at a cost of US$0.4 million, beginning six months after the date of issuance and we can force the exercise of the warrants at CAN$3.00 per share subject to certain conditions.

c) Brokered Private Placement

- On March 20, 2019, we completed a brokered private placement of $1.7 million of Equity Units at $0.74 each. Each Equity Unit consists of one common share of LiveWell and one common share purchase warrant. Each warrant shall be exercisable into one common share of LiveWell at a price of $0.74. The warrants expire on March 20, 2024. Accordingly, we have issued from treasury 2,299,000 common shares.

- On March 27, 2019, we completed the brokered private placement of US$12 million of our Senior Secured Convertible Promissory Notes, subject to US$6 million holdback provisions, which are convertible into our common shares at lower of: (i) the lowest daily volume weighted average price ("VWAP") in the previous ten trading days after trading resumes on the CSE or (ii) 75% of the lowest daily VWAP in the 10 trading days prior to the trading day on which the conversion shares are free trading in the United States on the NASDAQ or the CSE; provided however that in no event shall the conversion price be lower than CAD$0.74 per share (referred to herein as the "Notes"). The investors were also issued warrants of to purchase an aggregate of 6 million common shares at an initial exercise price of $US1.00 per share. (referred to herein as the "Warrants"). The Notes accrue guaranteed interest at 10% per annum and have a maturity date of April 20, 2020. We may prepay the Bridge Notes at a 25% premium on 10 trading days' notice. The payment of the Notes is amortized in eight equal monthly payments beginning September 1, 2019.

The total net proceeds from the above capital raises will be used to further invest in Vitality's Eureka, Montana extraction facility (via loans- see part a), with the balance for general corporate purposes.

d) Stock Option Grants

In March 2019, we granted an aggregate of 9.4 million options to purchase common stock of LiveWell to certain officers, employees and consultants. The options are exercisable at a price of $0.74 per share and will vest one third on each December 31st starting with December 31, 2019. These options will expire in five years. All options were granted in accordance with our stock option plan as approved by the shareholders in December 2018.

e) Conversion of Preferred Shares – Series 1 and 2

In March and April 2019, Holders of Series 1 and 2 Preferred Shares converted 876,050 and 876,049 preferred shares at $0.23 and $0.43, respectively, for a total of 5,774,943 common shares during the first quarter of 2019. A further 10,683 of each Series 1 and Series 2 Preferred Shares were converted for a total of 71,291 common shares in April 2019. This resulted in reclassifying $1.6 million from preferred shares to common shares in shareholders' equity.

f) Reverse Takeover and Change in Company Name

On April 11, 2019, our shareholders approved the amalgamation of LiveWell, Vitality and Mercal and renamed the Company to Eureka 93 Inc. ("Eureka93"). Subject to final approval by the Canadian Securities Exchange (the "CSE"), Eureka93 common shares will resume trading on the CSE with a new stock ticker: ERKA. We have also applied to list Eureka93's common shares on NASDAQ. There is no guarantee that this listing will be accepted or at what time in the future.

Vitality shareholders will own approximately 83% of the total outstanding and issued common shares of Eureka93 and as a result the above transaction will be accounted for as a reverse takeover by Vitality. Accordingly, Vitality is the accounting acquiror whereas LiveWell and Mercal are the accounting acquirees under IFRS. LiveWell and Mercal shareholders will own approximately 15% and 2%, respectively, of Eureka93's total issued and outstanding common shares.

g) Share Consolidation

On April 11, 2019, our shareholders approved a share consolidation of 15 to 1, which will take place in May 2019.

h) Amended and Restated Stock Option Plan

As disclosed in Note 19 (c), LiveWell has an Option Plan. On April 11, 2019, our shareholders approved to amend and restate this plan (the "2019 Option Plan") to adjust the aggregate number to 14.5 million of Eureka93 common shares reserved for issuance under the 2019 Option Plan and under any other share compensation arrangement granted or made available by Eureka93. This represents 20% of the issued and outstanding common shares of Eureka93 at the closing of the share consolidation and amalgamation.

The outstanding stock options immediately prior to the 2019 Option Plan will be consolidated to a 15 to 1 ratio and the exercise price will be adjusted accordingly as a result of the share consolidation (as noted in part G). The following table summarizes the option adjustments.

Prior Outstanding Stock Options ('000s)	Exercise Price	Adjusted Outstanding Stock Options ('000s)	Adjusted Exercise Price
15,935	$0.43	1,062	$6.45
317	$0.30	21	$4.50
9,350	$0.74	623	$11.10

i) Mortgage Loan Commitment Agreement

On April 4, 2019, we entered into a mortgage loan commitment agreement with private lenders for a five-year interest-only mortgage of $1.8 million bearing interest at 10.5% per annum and payable monthly to replace the current BDC mortgage loan of $1.7 million. The mortgage loan will have a first charge on Acenzia's property.

On April 15, 2019, the private lenders fully funded the mortgage loan commitment. The $1.8 million is held in escrow until the closing of the transaction which is expected to be in May 2019.