SATIVA WELLNESS GROUP INC. (FORMERLY STILLCANNA INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE PERIOD ENDED September 30, 2020

FORM 51-102F1

DATE AND SUBJECT OF REPORT

The following Management Discussion & Analysis ("**MD&A**") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of SATIVA WELLNESS GROUP INC. (hereinafter "**Sativa**" or the "**Company**") for the period ended September 30, 2020.

This MD&A has been prepared with an effective date of January 15, 2021 and should be read in conjunction with the Company's September 30, 2020 unaudited consolidated financial statements as filed on SEDAR.

SCOPE OF ANALYSIS

The following is a discussion and analysis of SWEL (formerly STIL). The Company reports its financial results in Canadian dollars and in accordance with International Financial Reporting Standards ("**IFRS**"). All reported financial information includes the financial results of SWEL and its subsidiaries.

FORWARD LOOKING STATEMENTS

Certain information included in this MD&A may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements.

Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company may differ materially from those reflected in forward-looking statements due to a variety of risks, uncertainties and other factors. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change except as required by law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations include uncertainty of estimates of capital and operating costs, production estimates and economic return; the assumption that the Company is fully compliant with regulatory filing and continued listing requirements; uncertainties regarding completion of the Company's joint venture extraction facility and associated production *approval; uncertainties regarding the Company's ability to obtain GMP certification; uncertainties regarding the Company's ability to meet its contractual obligations, including the ability to meet supply requirements; uncertainties regarding the ability of the Company to meet the requirements of the EU marketplace; uncertainties regarding the Company's relationships with certain joint venture partners; uncertainties regarding current and potential litigation arising from certain contractual relationships and other risks and uncertainties disclosed in other information released by the Company from time to time and filed with the appropriate regulatory agencies.*

It is the Company's policy that all forward-looking statements are based on the Company's beliefs and assumptions which are based on information available at the time these assumptions are made. The forward-looking statements contained herein are made as of September 30, 2020 and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or circumstances, except as may be required pursuant to applicable laws. Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate.

Actual results or events could differ materially from the plans, intentions and expectations expressed or implied in any forward-looking information or statements, including the underlying assumptions thereto, as a result of numerous risks, uncertainties and other factors such as those described above and in "Risks and Uncertainties" below. The Company has no policy for updating forward looking information beyond the procedures required under applicable securities laws.

Additional information related to the Company is available for view on SEDAR at www.sedar.com.

GENERAL BUSINESS AND DEVELOPMENT

Sativa Wellness Inc. is a publicly traded corporation incorporated in Canada with offices located at 503 – 905 W. Pender St., Vancouver, BC V6C 1L6, Canada, and The Blue Building, Stubbs Lane, Beckington, Somerset, BA11 6TE, UK. The Company's common shares are traded on the Canadian Securities Exchange ("**CSE**") and the Apex segment of the AQSE Growth Market ("**AQSE**"), under the trading symbol "SWEL", and is quoted on the over-the-counter ("**OTC**") market in the United States under the trading symbol SCNFF, and the Frankfurt Stock Exchange "FSE", under the trading symbol 484.

Sativa Wellness Group Inc. is a vertically integrated "seed to consumer" cannabinoid "CBD" company that operates in the United Kingdom and the European Union. Sativa has interests in CBD extraction, wholesale bulk isolate and distillate sales, retail CBD and white label sales, cannabinoid laboratory testing, and medicinal cannabis research programs. The Company own's an operating facility in Poland, which produce CBD isolate and distillate, and a production plant in the UK. Both Poland and the UK have testing laboratories. Sativa sells wholesale and white-label CBD to other businesses, and owns and operate a variety of brands that market CBD in the retail space.

On September 24, 2020, the Company acquired all of the issued and outstanding shares of Sativa Group Plc. ("Sativa") through a share exchange at a ratio of approximately 0.33507 common shares of the Company for one common share of Sativa. The exchange ratio attributed an implied value for the entire issued share capital of Sativa of approximately £10,662,680 ($18,175,604) based on the closing price of a share of the Company at $0.095 on April 21, 2020.

On September 7, 2020, the Canadian Securities Commission (CSE), conditionally approved the Listing Application for Sativa Wellness Group Inc. officially combining the operations of Sativa Group PLC and Sativa Wellness Group Inc. The shares of Sativa Wellness Group Inc. (formerly, Stillcanna Inc.) resumed trading on the CSE at the market open on September 30, 2020. Trading resumed on the CSE under a new symbol “SWEL”. The Company also listed for trading on the AQSE Growth Market (the “AQSE”) in the United Kingdom effective Thursday, October 1, 2020 under the symbol “SWEL”.

Prior to the acquisition, Sativa, through its subsidiaries, operated five separate businesses: Goodbody Botanicals, Sativa’s primary retail subsidiary which sells CBD products and hand sanitizer online, to high street stores and through Tessellate Collective, a bespoke direct sales channel operated through a custom-built social marketing platform; Goodbody Wellness, Sativa’s high street own retail store offering and prestige CBD wellness centre brand; PhytoVista Laboratories, an independent analytical hemp and CBD testing facility providing support to retailers, distributers and manufacturers by expertly testing the cannabinoid level of the hemp and CBD products they are supplying and also for contaminants; and Sativa Cultivation and Extraction, which cultivates and extracts high THC medicinal cannabis under Home Office licence for research purposes, to fulfil its research partnership with King’s College London.

<u>Goodbody Botanicals Ltd.</u>

On June 22, 2018, Sativa entered into a share purchase agreement (the "**GBL SPA**") with Carbon Managers Limited ("**CML**") pursuant to which it acquired the entire issued share capital of Goodbody Botanicals Ltd. (formerly, George Botanicals Ltd.) ("**GBL**"), a company constituted under the laws of England and Wales. GBL is a CBD retailer, manufacturing and packaging its own CBD products for the wholesale online and social marketing retail markets, as well as white label CBD manufacturer for third party brands.

<u>Goodbody Wellness Ltd</u>

Goodbody Wellness Ltd. ("**Goodbody Wellness**") was incorporated as a wholly owned subsidiary of Sativa on February 6, 2019 under the laws of England and Wales. Goodbody Wellness is a health and beauty CBD brand, distributing CBD products manufactured by its sister company GBL and third-party products via its company owned retail outlets, and online via its website.

<u>PhytoVista Laboratories Ltd</u>

On July 2, 2018, Sativa entered into a share purchase agreement (the "**PVL SPA**") with CML pursuant to which it acquired the entire issued and outstanding share capital of PhytoVista Laboratories Ltd. ("**PVL**"), a company organized under the laws of England and Wales. PVL is an analytical laboratory providing testing services for CBD and hemp products.

Sativa Cultivation and Extraction Ltd

Sativa Cultivation and Extraction Ltd. ("**SC&E**") is a wholly-owned subsidiary of Sativa that was formed on August 3, 2018 under the laws of England and Wales, for the purpose of carrying out research and development in the CBD and medicinal cannabis space.

Sativa Germany GmbH

Sativa Germany GmbH ("**Sativa Germany**") is a German company established to secure licenses for the distribution of medical cannabis products in Germany, and the sale and distribution of CBD products, in which Sativa holds a 60% interest.

The combination of Sativa with the company has lead to a truly vertically integrated seed to consumer group, with the pricing, products, and stability to meet the cannabis market demand in the medium term. The merger brings together Sativa's manufacturing, laboratory testing expertise, and CBD wellness products and brands, with Stillcanna's hemp cultivation knowledge and extraction capabilities, alongside a shared belief in regulatory compliance, which results in an organization with full control of its products from seed to consumer.

BUSINESS UPDATE AND OUTLOOK

COVID-19

The outbreak of COVID-19 has interrupted the Company's business initiatives and resulted in the temporary closing of its Polish factory and closure of retail stores in the UK due to social distancing and other actions implemented by the respective governments. In response to these restrictions the Company implemented various measures to help mitigate the impact of COVID-19, including staff redundancies, furloughing staff and cutting discretionary spend. The Nexus facility in Poland has re-opened, operating under reduced capacity due to COVID-19 working practices and the resulting trading environment. The Company is also streamlining its group structure, by consolidating operating companies to reduce overheads going forwards.

B2B Website

In September 2020, the Company launched a new corporate business-to-business ("**B2B**") website, https://sativawellnessgroup.com. The website details the group's offering in terms of cultivation, extraction, manufacturing, quality control and laboratories, wholesale, white label services, and CBD brands, alongside a guide to CBD for consumers. The site also includes a comprehensive 'Investor Relations' page, providing shareholder information, press releases, investor presentations and video interviews.

Goodbody Botanicals

In response to the COVID-19 global pandemic, the Company adjusted its UK production facilities to launch a range of company branded and customer branded sanitiser products, achieving a record month of sales for the group as a whole in July.

The Company launched a range of CBD with Vitamin D under the Goodbody Wellness premium brand, in multpiple flavours. This facilitates consumers to combine their recommended daily supplementary dose of Vitamin D, with their chosen CBD option, especially important in the winter months.

Extraction Initiatives

Over the past year the Company has been focused on the completion of two large extraction facilities based in Europe. Its initial facility based in Romania was a joint venture. The Company had hoped to begin production in Romania in March of 2020 but due to the global health crisis, travel restrictions and dispute with the Company's joint venture partner, production has not yet commenced. Please refer to the Dragonfly litigation business update below.

In Poland, since its acquisition of Olimax, the Company began construction of its second extraction facility called Nexus. The Nexus facility is optimized to make pure CBD crystal and is currently producing CBD isolate. The Company has installed its chromatography equipment enabling it to produce THC-free Distillate for the EU marketplace. The Nexus facility was built using a proprietary closed-loop ethanol extraction process entirely cooled by liquid nitrogen, one of the few such facilities in Europe. The entire process runs at minus 70 degrees Celsius and streamlines the extraction process with a unique winterization methodology. The facility has been manufacturing products under the licenses obtained through the Olimax acquisition, but new government initiatives may require the facility to obtain newer and additional licenses in the near future. During the COVID-19 epidemic the Company has taken this time to update its current licenses in Poland and is currently focused on obtaining its HACCP accreditation. HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

Novel Food Application

The Company is progressing well with its Novel Food Application, with in-house scientists and quality/compliance professionals partnering with Global Regulatory Services ("**GRS**") of the UK, an award winning global consulting firm with a specialty in Novel Food applications. The Company also announced in September its membership of the Association for the Cannabinoid Industry ("**ACI**") Novel Food consortium and it's landmark toxicology and genotoxicity studies, which will augment the submission of the Companies own Novel Food application dossier. The toxicology study will provide safety data that is required for Novel Food dossiers to be validated by the UK Food Standards Agency ("**UK FSA**"), and for products to remain available on the market after 31 March 2021. The Company has submitted its active ingredients for third party stability testing, and is working with both GRS and the ACI on documenting supply chain custody, product composition, nutritional information, manufacturing processes, bioavailability and end consumer use of its ingestible CBD wellness products.

Agricultural Initiatives

This year the Company has taken a multi-pronged approach to its farming initiatives including commissioning farmers to plant on certified organic land in conjunction with growing agreements with multiple European based hemp farmers. All biomass will be farmed in accordance with Good

Agricultural Practice. The Nexus facility in Poland, when running at full (non-COVID-19) capacity, can process between 18,000 – 36,000 kilos of biomass every month.

The Company's strategy of using agricultural partnerships is designed to assure the Company has access to the highest CBD content and EU compliant biomass available in Europe, while reducing agricultural and financial risks.

Multi-Year Extraction Agreement

The Company, through its wholly owned subsidiary Borganic, had signed an agreement with UK-based Dragonfly Biosciences Limited ("**Dragonfly**") to form an exclusive joint venture company named Premium Extractions Ltd ("**PEI**"). The agreement sets out that PEI is owned 49% by Borganic and 51% by Dragonfly. Please refer to the Dragonfly litigation business update below.

Dragonfly Litigation

The Company's wholly owned subsidiary, Borganic Consulting Inc., through PEI, has secured all licenses and permits required for its ORIGIN extraction facility in Romania to commence the manufacturing of CBD. Even though Borganic Consulting remains dedicated to the ORIGIN extraction facility it has become concerned with the lack of compliance to the original agreement from Dragonfly Biosciences. In order to secure the future of the ORIGIN extraction facility and its investment to date, Borganic Consulting has initiated legal action in the UK against Dragonfly Biosciences for contractual breaches under the partnership agreement. The company and Borganic Consulting will continue towards resolving the issues to allow for the commencement of manufacturing CBD at the ORIGIN facility in a way that is in the interest of Sativa Wellness Group's shareholders.

The Global CBD Marketplace

The CBD wellness products and wholesale bulk ingredient markets continue to see strong demand from consumers, wholesalers, manufacturers and brand owners, however the number of producers continues to increase, leading to a worldwide drop in wholesale and retail prices. Globally, CBD continues to be incorporated within a range of new consumer end products, such as cosmetics and edibles.

The regulatory environment continues to be fragmented; the UK FSA is setting a global benchmark in terms of consumer product safety with the implementation of Novel Foods in 2021, which will raise quality standards across the industry, and result in a barrier to entry for new brands and suppliers to the market. During 2020, the EU Food Saftey Authority ("**EU FSA**") paused their Novel Food process, whilst the European Commission ("**EC**") opined on whether CBD should be considered a narctotic; in Q4 following the landmark ruling from the EU's highest court, the EC concluded that CBD qualifies as a food and not a drug, and is therefore subject to EU law on the free movement of goods among member states. Subsequently, the EU FSA has resumed reviewing Novel Food authorisation applications for CBD products, a decision which is welcomed by the Company, which operates CBD extraction and production in the UK and Europe.

The Company intends to submit its Novel Food dossier that is being prepared for the UK Food Standards Agency (UK FSA) in parallel to the EU FSA, which will be a seamless process as the submission criteria for the two agencies are aligned.

Sativa's focus is the European marketplace, which comprises the UK, the EU and the balance of Europe. The UK is the leading consumer market for retail CBD products, followed by countries such as Italy and Germany, with strong growth in emerging CBD markets such as Poland and the Czech Republic.

Sativa Wellness Group produces an entirely EU-based compliant product and feels it is uniquely positioned to meet the requirements of the EU marketplace. Hazardous and Critical Control Process ("**HACCP**") and Good Manufacturing Practices (**GMP**) certificates greatly increase the value of an extraction Company's products.

Medicinal Cannabis – Q4 Developments

United Nations:
The United Nations has considered a number of recommendations from the World Health Organisation (WHO) to reclassify cannabis and its derivatives, and recently voted in favour to remove cannabis from Schedule IV of the 1961 UN Single Convention, the category of the world's most dangerous drugs. The Company believes that this long-anticipated decision, whilst having no immediate effect on local government classification at a country level, opens the door to recognising the medicinal and therapeutic potential of cannabis, and paves the way for additional scientific research, such as the Companies research partnership with King's College London into the efficacy of different cannabinoids in treating respiratory conditions.

US House of Representatives:
The US House of Representatives recently passed a federal bill to decriminalise cannabis at the national level. Whilst cannabis has been decriminalised in several states in the US, including California, Colorado, Nevada and Washington, it remains illegal at the federal level. The House calls for removing cannabis from the list of federally controlled substances and clears the way to erase certain federal convictions.

Whilst this bill is the first step to approval at the federal level – to become law, the bill needs to pass the Senate and be signed by the president – if passed into law, it would bridge the gap between state and federal legislation, and facilitate the emerging industry and access to medicinal cannabis across the US.

Selected Annual Information

Year Ended:	December 31, 2019	December 31, 2018
	$	$
Revenue	2,484,040	450,766
Gross profit (loss)	1,292,490	190,986
Selling, general and administrative (SG&A) Expenses	7,802,985	3,406,626
Net loss for the year	(6,510,495)	(3,215,640)
Basic and diluted loss per share (Cents)	(3.71)	(2.68)
Balance Sheet Data:		
Cash and short-term investment	3,414,660	6,475,394
Total assets	7,800,367	9,081,113
Accounts payable and accrued liabilities	598,705	486,692
Total liabilities	1,800,236	486,692
Shareholders' equity	6,000,131	8,594,419
Cash Flow Data:		
Increase (decrease) in cash for the year	(2,998,814)	6,475,877

Financials results for 2018 were converedted from GBP to CAD at the closing spot rate at December 31, 2018 of £1.00 = $1.73013.
Financials results for 2019 were converedted from GBP to CAD at the closing spot rate at December 31, 2019 of £1.00 = $1.71373.

RESULTS OF OPERATIONS

The Group reported revenues of $2,484,040 in the year to December 31, 2019, representing an increase of 176% on the annualised run rate of the revenue reported in H2 2018 of $901,533 (George Botanicals was acquired June 2018 and PhytoVista July 2018).

Gross profit of $1,292,490 was reported in the year to December 31, 2019, with an improvement in gross profit margin of 10pts to 52%, due to a significant decrease in the bulk price of CBD extracts from 2018 as the supply of organic material became increasingly commoditised, and manufacturing efficiency gains from the purchase of an automated bottling line.

The net comprehensive loss of $6,510,495 was reported in the year to December 31, 2019, as the Group invested in staff, infrastructure and marketing to drive growth.

- Wages and salaries increased by $1,945,558 to $2,708,545, due to headcount increasing by 37 FTEs to a total of 47, to support the launch of new brands, commissions on increased sales, a new CEO, and an upgrade in talent across the business.
- The Group invested a total of $580,954 in research and development initiatives, as it developed new products, laboratory methods and new revenue streams.
- Expenditure on selling and distribution costs, including advertising, marketing and tradeshows, totaled $808,881, to increase brand awareness in an increasingly crowded CBD market.

Non-cash Charges

- The share-based payment charge of $1,249,309 incorporates $992,250 from the Group's equity settled share option schemes including an employee Long-Term Incentive Plan, and an additional $257,059 non-cash charge relating to corporate sponsorship.
- IAS 36 fixed asset impairment provisions of $152,522 was booked as an exceptional item in the year; as part of the Group's review of overall retail strategy a prudent view of the trial Goodbody Wellness stores ability as cash generating units was taken. Management took the view that the impact of COVID-19 which forced the three stores to close will result in a decline in retail trading conditions on the high-street in the medium-term, and adjusted its retail strategy accordingly via the launch of new products such as hand cleanser and sanitisers, and expanded its digital marketing strategy to drive online sales.

Net Assets total $6,000,131 at 31 December 2019, incorporating $3,414,660 in cash and cash equivalents.

Cash Flows

Net cash outflows in the year to December 31, 2019 were $2,998,814.

- Net cash used in operations totaled $4,478,182 in the year as the Group invested in talent, marketing, regulatory and R&D to build brand market share and develop new revenue streams.
- Proceeds from the sale of listed investments ($46,643) net off against $899,708 of net expenditure on property, plant and equipment, resulting in a further net cash outflows from investing activities of $846,583.
- Net proceeds from the issue of shares of $2,488,314, combined with $162,217 lease repayments.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the eight most recent quarters:

Quarter Ended		Total revenue		Total expenses		Comprehensive loss for the period		Basic and Diluted Loss per share
September 30, 2020	$	826,363	$	2,129,250	$	(1,302,887)	Cents	(0.66)
June 30, 2020	$	645,128	$	3,106,934	$	(2,461,807)	Cents	(1.29)
March 31, 2020	$	615,367	$	2,189,335	$	(1,573,960)	Cents	(0.83)
December 31, 2019	$	793,457	$	3,004,169	$	(2,210,712)	Cents	(1.23)
September 30, 2019	$	629,827	$	2,241,592	$	(1,611,765)	Cents	(0.91)
June 30, 2019	$	570,672	$	1,862,825	$	(1,292,152)	Cents	(0.75)
March 31, 2019	$	437,001	$	1,821,695	$	(1,384,694)	Cents	(0.81)
December 31, 2018	$	294,122	$	1,534,625	$	(1,240,503)	Cents	(0.74)

Financials results for Q1, Q2 + Q3 2020 were converted from GBP to CAD at the closing spot rate at September 30, 2020 of £1.00 = $1.72034. Financials results for Q1, Q2, Q3 + Q4 2019 were converted from GBP to CAD at the closing spot rate at December 31, 2019 of £1.00 = $1.71372; this results in a foreign exchange variance to the financials reported for the three and nine periods to September 30, 2019 in the Condensed Interim Consolidated Statements of Loss and Comprehensive Loss, which used a spot rate of 1.62613. Financials results for Q4 20218 were converedted from GBP to CAD at the closing spot rate at September 30, 2020 of £1.00 = $1.73013.

The quarterly revenue growth trend was disrupted in Q1 2020 due to the impact of the COVID-19 global pandemic impacting March 2020 revenues; January and February 2020 were in-line with management expectations. Operating costs were significantly reduced in Q2 and Q3, including measures to reduce ongoing operating expenditure by closing its retail stores and furloughing non-essential staff, reducing headcount and hours, cutting discretionary spend including marketing and travel.

Q2 and Q3 2020 revenues were augmented by the launch of the hand sanitizer range, with a record month of revenue recognised in July. The increase in expenses in Q2 and Q3 2020 is driven by advisor fees associated with the acquisition of Stillcanna Inc. and as such will reduce to normal run rates going forwards.

Review of Consolidated Financial Information for Q3 2020 compared to Q3 2019

Results of Operations		**Q3 2020**		**Q3 2019**
Revenue	$	826,363	$	629,827
Gross profit	$	400,760	$	386,772
General and administration	$	482,068	$	701,605
Management and consulting fees	$	33,712	$	31,535
Wages and benefits	$	650,334	$	708,936
Professional fees	$	341,053	$	233,105
Share-based payment charges	$	352,787	$	321,026
Other income and expenses	$	(85,364)	$	2,330
Loss before income tax	$	(1,373,830)	$	(1,611,765)
Income tax recovery - R&D Tax credits	$	178,791	$	-
Currency translation adjustment	$	(107,848)	$	-
Net and comprehensive loss	$	(1,302,887)	$	(1,611,765)
Basic and diluted loss per common share (Cents)		(0.66)		(0.91)

Financials results for Q3 2019 were converedted from GBP to CAD at the closing spot rate at September 30, 2019 of £1.00 = $1.62613.
Financials results for Q3 2020 were converedted from GBP to CAD at the closing spot rate at September 30, 2020 of £1.00 = $1.72034.

Revenue

The Company recorded revenues of $826,363 in Q3 2020, representing growth of $196,536 (+31%) on Q3 2019 ($629,827), driven by the launch of the hand santiser range of products launched in Q2 and growth in online CBD sales, compensating for a decline in retail CBD sales (company owned stores and high-street retailers) and laboratory testing due to COVID-19. Additionally, $25,699 of growth is due to post acquisition revenues from the sale of bulk isolate and distillate from the Nexus extraction facility in Poland.

Gross profit margin

Gross profit increased by $13,988 from the prior period, to $400,760 in Q3 2020, representing a margin decline of 13pts to 48.5%. This is due to the change in revenue mix, as detailed above, with a decerease in the proportion of higher margin laboratory testing revenues, an increase in lower margin sanitsier revenues and promotional activity to compete in a more crowded CBD market. There was also a impairment to inventory made to reflect the rationalization of the range for Novel Food of $36,552 which accounted for 4.5pts.

General and administration

The Company incurred general and administrative expenditure of $482,068 in Q3 2020, a decrease of $219,535 (31%) compared to Q3 2019 ($701,605). The decline is driven by a reduction in advertising, as the prior period included investment in the opening of Company owned retail stores. The remainder is due to svaings in administrative and operational costs, due to the cost cutting measures implemented by the management team to address COVID-19 market conditions.

Management and consulting fees

Consulting fees of $33,712 in Q3 2020 increased marginally (+$2,176) compared to the prior period.

Wages and salaries

Wages and salaries have decereased by $58,602 (8%) on Q3 2019, to a total payment of $650,334 in Q3 2020, due to the reduction in headcount, furlough of staff and closure of retail stores as part of the cost cutting measures implemented by management to mitigate the impact of COVID-19.

Professional fees

Expenditure on professional fees totalled $341,053 in Q3 2020, representaing an increase of 6% on spend in Q3 2019. The increase spend relates to legal and advisory costs relating to the acquisition of Stillcanna Inc. via a scheme of arrangement, totalling $167,625 including $95,000 in shares relating to an advisor finders fee arrangement. Savings in professional fees compared to the comparative period relate to reduction in spend on the Scientific Advisory Board advisors, and non-recurring spend on broker on-boarding fees, and laboratory systems implemetation in Q3 2019.

Share-based payment charges

Share-based payment charges, a non-cash expense, totalled $352,787 in Q3 2020, an increase of $31,761 on Q3 2019 ($321,026). The increase is due to an adjustment for replacement options awarded in Q2 2020 but amended in Q3.

Other income and expenses

Other income and expenses netted to an income of $85,364 in Q3 2020, compared to net expsneses of $2,330 in Q3 2019, resulting in a positive variance of $87,694. This is predominantly driven by grant and furlough payments from the UK government during COVID-19, netted against foreign exchange losses and an impairment charge to inventory relating to obsolete product labels and cartons.

Net and comprehensive loss

The Company realised a net comprehensive loss of $1,302,887, an improvement of $308,878 compard to the $1,611,765 loss incurred in Q3 2019, after accounting for $178,791 of R & D tax credits in the UK, and ($107,848) of foreign translation adjustments.

Review of Consolidated Financial Information for YTD 2020 compared to YTD 2019

Results of Operations		**YTD Sept 2020**		**YTD Sept 2019**
Revenue	$	2,086,866	$	1,586,345
Gross profit	$	1,129,298	$	830,574
General and administration	$	1,828,573	$	1,545,145
Management and consulting fees	$	113,788	$	144,400
Wages and benefits	$	2,018,036	$	1,647,745
Professional fees	$	1,065,236	$	589,025
Share-based payment charges	$	1,782,450	$	935,349
Other income and expenses	$	(226,278)	$	121,173
Loss before income tax	$	(5,452,507)	$	(4,152,263)
Income tax recovery	$	221,702	$	-
Currency translation adjustment	$	(107,848)	$	-

Net and comprehensive loss	$	(5,338,653)	$	(4,152,263)
Basic and diluted loss per common share (Cents)		(2.76)		(2.39)

Financials results for YTD September 2019 were converedted from GBP to CAD at the closing spot rate at September 30, 2019 of £1.00 = $1.62613. Financials results for YTD September 2020 were converedted from GBP to CAD at the closing spot rate at September 30, 2020 of £1.00 = $1.72034.

Revenue

The Company recorded revenues of $2,086,866 YTD in 2020, representing growth of $500,521 (+32%) on YTD 2019 ($1,586,345), driven by the launch of the hand santiser range of products launched in Q2, and growth in online CBD sales, compensating for a decline in retail sales (company owned stores and high-street retailers) and laboratory testing due to COVID-19. Additionally, $25,699 of growth is due to post acquisition revenues from the sale of bulk isolate and distillate from the Nexus extraction facility in Poland.

Gross profit margin

Gross profit increased by $298,724 (36%) from the prior period, to $1,129,298 during YTD 2020, representing an improvement in margin of 1.7pts to 54%, driven by a decrease in the cost of bulk price of CBD isolate in 2019 and early 2020 as more hemp growers and extractors entered the market, and effeciencies gains from the purchase of an automated bottling line.

General and administration

The Company incurred general and administrative expenditure of $1,828,573 during YTD 2020, an increase of $283,428 (18%) compared to YTD 2019 ($1,545,145). $241,704 of the increase is due a higher amortization charge in the period, due to invesments in plant and machinery, computer equipment, and leasehold imprvements in the period. The remainder of the increase relates to advertsising costs, associated with the launch of the sanitiser range and drive for online sales, bank charges and insurance premiums, off-set by $139,551 of savings in travel and entertaining, and $32,160 of savings in infrastructure costs from the closure of stores.

Management and consulting fees

Management and consulting fees were $113,788 in the period, compared to $144,400 during YTD 2019, a saving of $30,612 (21%), relating to non-recurring consultant fees in the prior period.

Wages and salaries

Wages and salaries were $2,018,036, compared to $1,647,745during YTD 2019, and increase of 23%. This is due to the full year impact of a new CEO part way through 2019, and investment in marketing and operations headcount.

Professional fees

Expenditure on professional fees were $1,065,236 YTD 2020, representaing an increase of $476,211 on YTD 2019 ($589,025). The increase spend relates to legal and advisory costs relating to the acquisition of Stillcanna Inc. via a scheme of arrangement, totalling $542,061, including $95,000 in shares relating to an advisor finders fee arrangement.

Share-based payment charges

Share-based payment charges, a non-cash expense, totalled $1,782,450 YTD 2020, an increase of $847,101 on YTD 2019 ($935,349). The increase is due to a charge relating to options awarded in Q2 2020 that vested immediately, after the implementation of a new management incentive plan

("MIP") to retain and incentivise Henry Lees-Buckley, Chief Executive Officer and other senior staff and advisors as well as to replace the existing options held by Directors of Sativa. The MIP shares are non-dillutive, as they originate from options granted to the founder, Geremy Thomas, upon admission of the Company to the AQSE Growth Market, who subsequently surrended the options back to the Company. Awards of forfitted options from leavers were also awarded to current employees.

Other income and expenses

Other income and expenses netted to an income of $226,278 in the period to September 2020, compared to net expenses of $121,173 during YTD 2019, resulting in a positive variance of $347,451. This is predominantly driven by grant and furlough payments from the UK government during COVID-19 totalling $283,361, netted against foreign exchange losses and an impairment charge to inventory relating to obsolete product labels and cartons. In YTD 2019, the Company recognised a $106,481 loss on listed investments.

Net and comprehensive loss

The Company realised a net comprehensive loss of $5,338,653, compared to a loss of $4,152,263 during YTD 2019, after the recovery of $221,702 of R & D tax credits in the UK, and ($107,848) of foreign translation adjustments.

LIQUIDITY, CASH FLOWS AND CAPITAL RESOURCES

Liquidity

At September 30, 2020 and December 31, 2019, the Company had the following luidity related financial information:

		September 30, 2020		**December 31, 2019**
Cash and cash equivalents (1)	$	4,908,663	$	3,414,660
Liquid assets	$	5,637,314	$	3,913,894
Quick ratio (2)		2.1		3.3
Total assets	$	23,493,693	$	7,800,367
Total liabilities	$	3,040,005	$	1,800,236
Working capital	$	4,740,193	$	3,599,810
Working capital (current) ratio (3)		3.0		4.5

(1) Liquid assets include cash, receivables, and refundable sales taxes receivable.
(2) Quick ratio is defined as cash and cash equivalents divided by current liabilities.
(3) Working capital (current) ratio is defined as liquid (current) assets divided by current liabilities

Liquidity is defined as the potential that the Company will encounter difficulties in meeting its financial liabilities and other contractual obligations, and the factors that may affect liquidity. Such factors include staff costs and other operating overhead, production and sales levels, capital investment, foreign currency fluctuations, seasonal trends, regulatory initiatives and compliance, income and sales tax refunds, and a rapidly evlovling and immature market.

These factors could adversely impact the Companies liquidity, potentially resulting in operating cashflows not being able to meet the Copany's working capital requirements. The Company's strategy is to achieve positive cash flows in the medium term, to meet it's operating and capital requirements. The Company, whilst in the growth phase of the development life cycle, is not currently cash positive, and whilst the Company has been sucessfull in raising additional capital via the issue of shares in the past, there is no gurantee that the Company could raise capital either through shares or debt in the future on acceptable terms, and therefore is subject to liquidity risk.

The Company proactively monitors liquidty risk, by primarilty focusing on liquid assets and working capital, via quick and working capital (current) ratios.

The Company's cash and cash equivalent position has improved by $1,494,003 from the 2019 year end to $4,908,663 as at September 30, 2020, due to the cash inflow of $4,279,534 from the acquisition of Stillcanna Inc. Despite this increase in cash, the quick ratio has decreased from 3.3 to 2.1, due to the increase in current liabilities, as a result of the increased size of operations of the Group, ongoing legal fees, and increased trading volumes.

The working capital (current) ratio has declined from 4.50 at the 2019 year end, to 3.0 as at September, 30, 2020, due to the reduction in liquid assets.

The Company has taken action to maintain working capital and improve liquidity, such as the cost cutting measures implemented at the outset of COVID-19, and engaging biomass suppliers with Tolling contracts rather than standard purchasing contracts, where biomass is paid for in-kind with bulk isolate and distillate.

Cash Flows

Net cash flow		**For the nine months ending September 30, 2020**		**For the ninemonths ending September 30, 2019**
Operating activities	$	(2,696,034)	$	(3,313,373)
Investing activities	$	4,308,778	$	(779,748)
Financing activities	$	(118,741)	$	358,456
			$	
Cash at begining	$	3,414,660	$	6,086,151
Cash at end	$	4,908,663	$	2,351,486

Review of cash flow in the nine months to September 30, 2020

Cash used in operating activities was $2,696,034:
- Movements in inventory decreased cash by $156,923.
- Movements in trade recieveables increased cash by $227,325.
- Movements in trade payables decreased cash by $144,138.

Cash flows from investing activities was $4,308,778:
- Cash inflow from the acquisition of Stillcanna Inc., of $4,279,534.
- Cash inflow from the proceeds from the sale of listed investments of $113,067.

- Payments for plant and machinery of $103,097, relating to investment in computer equipment and leashold improvements., netted against £79,486 of proceeds from the sale of plant and equipment.
- Payments for trademarks was $60,212.

Cash flows to financing activities was $118,741, the main value, $208,580 relating to the payment of lease liabilities, less $89,839 of share issuance cost.

Review of cash flow in the nine months to September 30, 2019

Cash used in operating activities was $3,313,373:
- Movements in inventory decreased cash by $126,589.
- Movements in trade recieveables decreased cash by $601,410.
- Movements in trade payables increased cash by $282,233.

Cash outflows from investing activities was $779,748:
- Payments for plant and machinery of $788,204, primarily relating to investment in leashold improvements for the retail stores, a new bottling line, and computer equipment netted against £8,456 of proceeds from the sale of plant and equipment.
-

Cash flows from financing activities was $358,456:
- Proceeds from the placing of shares of $414,558, relating to the exercise of options.
- Payment of lease liabilities of $56,102.

OFF BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

The Company has determined that its key management personnel consist of executive and non-executive directors of the Company and corporate officers.

The remuneration of directors and key management personnel for the three and nine month period to September 30, 2020 and 2019 was as follows:

		Three-months ended			**Nine-months ended**	
		September 30, 2020	**September 30, 2019**		**September 30, 2020**	**September 30,2019**
Wages and salaries to Directors and key management	$	242,148	148,734	$	699,202	315,056
Directors Fees	$	60,269	81,510	$	177,041	244,529
Share-based compensation	$	75,404	111,638	$	1,658,463	355,035
	$	**377,821**	**341,882**	$	**2,534,706**	**914,620**

Other related party transactions for the three and nine month period to September 30, 2020 and 2019 was as follows:

		Three-months ended			Nine-months ended	
		September 30, 2020	**September 30, 2019**		**September 30, 2020**	**September 30,2019**
Recharged expenses and sales costs	$	1,029	3,713	$	9,245	15,491
Consultant fees	$	17,204	-	$	17,203	-
Rent	$	51,610	44,719	$	146,352	134,156
	$	**69,843**	**48,432**	$	**172,800**	**150,097**

CONTINUING AND CONTRACTUAL OBLIGATIONS

Contractual obligations	**Payments due by period**	**Total**	**Less than 1 year**	**1 – 2 years**	**2 – 5 years**
Lease liability	$	955,323	301,969	267,586	385,768
Leashold Improvements	$	15,220	15,220		
Research sponsorship	$	82,001	54,667	27,334	
Other obligations	$	2,014,795	2,014,795		
Total contractual obligation	$	3,067,339	2,386,651	294,920	385,768

Further details of the Company's right of use lease obligations can be found in note 10 of the September 30, 2020 accounts, and leasehold improvements in note 9.

Through its wholly owned subsidiary Borganic, the company signed an agreement with UK-based Dragonfly Biosciences Limited to form an exclusive joint venture company named Premium Extractions Ltd. The agreement sets out that PEI is owned 49% by Borganic and 51% by Dragonfly. The agreement included a commitment from Dragonfly to purchase CBD, and that Borganic will provide PEI the capital to fund the development of the initial Romanian extraction facility. Please refer to the Dragonfly litigation update above.

RISKS AND UNCERTAINTIES

The business of the Issuer is subject to certain risks and uncertainties inherent in the cannabis industry. Prior to making any investment decision regarding the Issuer, investors should carefully consider, among other things, the risk factors set forth below.

While this document describes the risks and uncertanties that management of the Issuer believes to be material to the Issuer's business, it is possible that other risks and uncertainties affecting the Issuer's business will arise or become material in the future.

If the Issuer is unable to address these and other potential risks and uncertainties, its business, financial condition or results of operations could be materially and adversely affected. In this event, the value of the Common Shares could decline and an investor could lose all or part of their investment.

The following is a description of the principal risk factors that will affect the Issuer:

Risks Related to the Issuer's Business

New Business Area and Geographic Market, and the Issuer's Ability to Implement the Business Strategy in this Area or Market

The Issuer's growth strategy is dependent upon expanding its product and service offerings into a new business area or a new geographic market. There can be no assurance that the new business area and geographic market will generate the anticipated clients and revenue. In addition, any expansion into a new business area or geographic market could expose the Issuer to new risks, including compliance with applicable laws and regulations, changes in the regulatory or legal environment; different customer preferences or habits; adverse exchange rate fluctuations; adverse tax consequences; differing technology standards or end-user requirements and capabilities; difficulties staffing and managing foreign operations; infringement of third-party intellectual property rights; adapting its products for new markets; difficulties collecting accounts receivable; or difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner.

The growth and expansion of the Issuer's business is heavily dependent upon the successful implementation of the Issuer's business strategy. Execution of the Issuer's business strategy is subject to a variety of risks, including operating and technical problems, regulatory uncertainties and possible delays. There can be no assurance that the Issuer will be successful in the implementation of its business strategy. These factors could cause the Issuer's expansion into a new business area to be unsuccessful or less profitable or could cause the Issuer's operating costs to increase unexpectedly or its sales to decrease, any of which could have a material adverse effect on the Issuer's prospects, business, financial condition or results of operations. In addition, there can be no assurance that laws or administrative practices relating to taxation, foreign exchange or other matters in the markets within which the Issuer intends to operate will not change. Any such change could have a material adverse effect on the Issuer's business, financial condition and results of operations.

There is also an assumption that once the UK leaves the Europen Union there will not be significant fincial or operatiosnl barriers on import and export of products between the two juristrictions.

New Industry and Market

The CBD industry and market are relatively new in the European Union and the United Kingdom, and this industry and market may not continue to exist or grow as anticipated or the Issuer may ultimately be unable to succeed in this new industry and market. These producers are operating in a relatively new CBD industry and market. The producers are subject to general business risks, as well as risks associated with a business involving an agricultural product and a regulated consumer product. Within the European Union, the Issuer intends to sell and market its CBD products. To this extent the Issuer needs to build brand awareness in this industry, and in the markets it operates in through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Issuer’s brand and products as effectively as intended, or at all. Competitive conditions, consumer tastes, customer requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets. There are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the CBD wellness industry and market could have a material adverse effect on the Issuer’s business, financial condition and results of operations.

Reliance on Licenses and Authorizations

The Issuer’s ability to source hemp and extract CBD oil and isolate in various jurisdictions within the European Union and the United Kingdom is dependent on the Issuer’s, including but not limited to the Issuer's partners and suppliers, ability to sustain and/or obtain the necessary licenses and authorizations by certain authorities in certain jurisdictions within the European Union and the United Kingdom. The impact of the compliance regimes, any delays in obtaining, or failure to obtain or keep the regulatory approvals may significantly delay or impact the development of markets, products, operations and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Issuer.

The licenses and authorizations are subject to ongoing compliance and reporting requirements and the ability of the Issuer, including but not limited to the Issuer's partners, suppliers and joint venture partners', to obtain, sustain or renew any such licenses and authorizations on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in the jurisdictions within the European Union and the United Kingdom and potentially in other foreign jurisdictions. Failure to comply with the requirements of the licenses or authorizations or any failure to maintain the licenses or authorizations would have a material adverse impact on the business, financial condition and operating results of the Issuer, including but not limited to the Issuer's subsidiaries.

Although the Issuer believes that it will meet the requirements to obtain, sustain or renew the necessary licenses and authorizations, there can be no guarantee that the applicable authorities will issue these licenses or authorizations. Should the authorities fail to issue the necessary licenses or authorizations, the Issuer may be curtailed or prohibited from the production and/or extraction of CBD or from proceeding with the development of its operations as currently proposed and the business, financial condition and results of the operation of the Issuer may be materially adversely affected.

There is no assurance that the Sativa Wellness Group Facilities will operate as intended or that the projected revenues will be achieved.

The Issuer has constructed CBD extraction facility, and this component of the Issuer's business plan is subject to considerable risks, including:

- there is no assurance that the company Facilities will achieve the intended CBD extraction rates;
- the revenues from the sales of the CBD products may be less than anticipated.

Change of Cannabis Laws, Regulations, and Guidelines

Cannabis laws and regulations, including but not limited to those that apply to the hemp, CBD and medincial cannabis industries, are dynamic and subject to evolving interpretations which could require the Issuer to incur substantial costs associated with compliance or alter certain aspects of its business plan. It is also possible that regulations may be enacted in the future that will be directly applicable to certain aspects of the Issuer's business. The Issuer cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on the Issuer's business. Management expects that the legislative and regulatory environment in the hemp, CBD and medincinal cannabis industrries in the European Union, the United Kingdom and internationally will continue to be dynamic and will require innovative solutions to try to comply with this changing legal landscape in this nascent industry for the foreseeable future. Compliance with any such legislation may have a material adverse effect on the Issuer's business, financial condition and results of operations.

Public opinion can also exert a significant influence over the regulation of the CBD and medicinal cannabis industries. A negative shift in the public's perception could affect future legislation or regulation in different jurisdictions, including in the United Kingdom and other European countries that Issuer plans to distribute its CBD products, and potentially medicinal cannabis in the future.

Uncertain Demand for Cannabis and Derivative Products

The legal cannabis extracts industry in the European Union and the United Kingdom is at an early stage of its development. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of medicinal cannabis extracts and hemp extracts are mixed and evolving and can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of hemp extracts and related products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the hemp market or CBD market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity, could have a material adverse effect on the demand for medicinal cannabis and on the business, results of operations, financial condition and cash flows of the Issuer. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of medicinal cannabis with illness or other negative effects or events, could have such a material adverse effect. Public opinion and support for medicinal cannabis use has traditionally been inconsistent and varies from jurisdiction to jurisdiction. The Issuer's ability to gain and increase market acceptance of its business may require substantial expenditures on investor relations, strategic relationships and marketing initiatives. There can be no assurance that such initiatives will be successful and their failure to materialize into significant demand may have an adverse effect on the Issuer's financial condition.

Product Liability

As a distributor of products designed to be ingested by humans, the Issuer faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused bodily harm or injury. In addition, the sale of the Issuer's products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Adverse reactions resulting from human consumption of the Issuer's products alone or in combination with other medications or substances could occur. The Issuer may be subject to various product liability claims, including, among others, that the Issuer's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning health risks, possible side effects or interactions with other substances. A product liability claim or regulatory action against the Issuer could result in increased costs, could adversely affect the Issuer's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Issuer. There can be no assurances that the Issuer will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Issuer's potential products.

Product Recalls

Distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labelling disclosure. If any of the Issuer's products are recalled due to an alleged product contamination or for any other reason, the Issuer could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Issuer may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin, or at all. In addition, a product recall may require significant management attention. Although the Issuer has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if the Issuer's products are subject to recall, the reputation of the Issuer could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Issuer's products and could have a material adverse effect on the results of operations and financial condition of the Issuer. Additionally, product recalls may lead to increased scrutiny of the Issuer's operations by regulatory agencies, requiring further management attention, potential loss of applicable licenses, and potential legal fees and other expenses.

Regulatory Compliance Risks

Achievement of the Issuer's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities in more than one country and obtaining all regulatory approvals, where necessary, for the manufacture and sale of its products. The Issuer may not be able to obtain or maintain the necessary licenses, permits, quotas, authorizations or accreditations to operate its business, or may only be able to do so at great cost. The Issuer cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by local governmental authorities.

The Issuer will also rely on the advice of local experts and professionals in connection with any current and new regulations that develop in respect of banking, financing and tax matters in the operating countries within the European Union and the United Kingdom. Any developments or changes in such legal, regulatory or governmental requirements or in local business practices in the European Union and the United Kingdom are beyond the control of the Issuer and may adversely affect its business.

The Issuer will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Issuer may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Issuer's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Issuer.

Retention and Acquisition of Skilled Personnel

The loss of key staff, could have a material adverse effect on its business and results of operations. In addition, the inability to hire or the increased costs of hiring new personnel, including members of executive management, could have a material adverse effect on the Issuer's business and operating results. The expansion of marketing and sales of its products will require the Issuer to find, hire and retain additional capable employees who can understand, explain, market and sell its products. There is intense competition for capable personnel in all of these areas and the Issuer may not be successful in attracting, training, integrating, motivating, or retaining new personnel, vendors, or subcontractors for these required functions. New employees often require significant training, and in many cases, take a significant amount of time before they achieve full productivity. As a result, the Issuer may incur significant costs to attract and retain employees, including significant expenditures related to salaries and benefits and compensation expenses issued in connection to equity awards, and may lose new employees to its competitors or other companies before it realizes the benefit of its investment in recruiting and training them. In addition, as the Issuer moves into new jurisdictions, it will need to attract and recruit skilled employees in those new areas.

Risks Inherent in an Agricultural Extraction Business

The Issuer's business involves the extraction of cannabis extracts, which is an agricultural product. The occurrence of severe adverse weather conditions, especially droughts or floods is unpredictable, may have a potentially devastating impact on agricultural production, and may otherwise adversely affect the supply of cannabis. Adverse weather conditions may be exacerbated by the effects of climate change and may result in the introduction and increased frequency of pests and diseases. The effects of severe adverse weather conditions may reduce the Issuer's yields or require the Issuer to increase its level of investment to maintain yields. Additionally, higher than average temperatures and rainfall can contribute to an increased presence of insects and pests, which could negatively affect cannabis crops. Future droughts could reduce the yield and quality of the Issuer's cannabis production, which could materially and adversely affect the Issuer's business, financial condition and results of operations.

The occurrence and effects of plant disease, insects and pests can be unpredictable and devastating to agricultural operations, potentially rendering all or a substantial portion of the affected harvests unsuitable for sale. Even when only a portion of the production is damaged, the Issuer's results of operations could be adversely affected because all or a substantial portion of the production costs may have been incurred. Although some plant diseases are treatable, the cost of treatment can be high and such events could adversely affect the Issuer's operating results and financial condition. Furthermore, if the Issuer fails to control a given plant disease and the production is threatened, the Issuer may be unable to adequately supply its customers, which could adversely affect its business, financial condition and results of operations. There can be no assurance that natural elements will not have a material adverse effect on production.

Limited Operating History

The Issuer has a limited operating history in the CBD extraction, distribution and sales space upon which its business and future prospects may be evaluated. The Issuer will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that it will not achieve its operating goals. In order for the Issuer to meet its future operating requirements, the Issuer will need to be successful in its growing, marketing and sales efforts of its cannabis products. Additionally, where the Issuer experiences increased sales, the Issuer's current operational infrastructure may require changes to scale the Issuer's business efficiently and effectively to keep pace with demand and achieve long-term profitability.

Managing Growth

In order to manage growth and changes in strategy effectively, the Issuer must: (a) maintain adequate systems to meet customer demand; (b) expand sales and marketing, distribution capabilities, and administrative functions; (c) expand the skills and capabilities of its current management team; and (d) attract and retain qualified employees. While it intends to focus on managing its costs and expenses over the long term, the Issuer expects to invest its earnings and capital to support its growth but may incur additional unexpected costs. If the Issuer incurs unexpected costs it may not be able to expand quickly enough to capitalize on potential market opportunities.

Legal and Regulatory Proceedings

From time to time, the Issuer may be a party to legal and regulatory proceedings, including matters involving governmental agencies, entities with whom it does business and other proceedings arising in the ordinary course of business. The Issuer will evaluate its exposure to these legal and regulatory proceedings and establish reserves for the estimated liabilities in accordance with generally accepted accounting principles. Assessing and predicting the outcome of these matters involves substantial uncertainties. Unexpected outcomes in these legal proceedings, or changes in management’s evaluations or predictions and accompanying changes in established reserves, could have an adverse impact on the Issuer’s financial results.

The Issuer’s participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by third parties, other companies and/or various governmental authorities against the Issuer. Litigation, complaints, and enforcement actions involving the Issuer could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Issuer’s future cash flows, earnings, results of operations and financial condition.

The Issuer’s production is, in general, subject to different risks and hazards, including adverse weather conditions, fires, plant diseases and pest infestations, other natural phenomena, industrial accidents, labour disputes, changes in the legal and regulatory framework applicable to the Issuer and environmental contingencies.

The Issuer’s insurance may cover only part of the losses it may incur and does not cover losses on crops due to drought or floods. Furthermore, certain types of risks may not be covered by the policies that the Issuer may holds. Additionally, any claims to be paid by an insurer due to the occurrence of a casualty covered by the Issuer’s policies may not be sufficient to compensate the Issuer for all of the damages suffered. The Issuer may not be able to maintain or obtain insurance of the type and amount desired at a reasonable cost. If the Issuer were to incur significant liability for which it was not fully insured, it could have a materially adverse effect on the Issuer’s business, financial condition and results of operations.

Inter-company Transfers of Funds

As the Issuer's operations will be carried on through its subsidiaries, it will be, in part, dependent on cash flows to and from its subsidiaries. The Issuer is not currently subject to or aware of any limitations on the repatriation of funds from the subsidiaries in the United Kingdom and the European Union, or transfer of funds from the Issuer to the subsidiaries. The Issuer has developed a cash management system to provide for the flow of funds between the Issuer and the subsidiaries. This system will provide for:

- the structuring and documentation of fund transfers as loan arrangements, capital investments and/or management services arrangements between relevant entities;

- internal approval process, by the Issuer’s CFO, Corporate Secretary and/or CEO; and

- compliance with internal procedures and applicable local regulations.

If any issues arising with the repatriation of funds it may have an adverse effect on the Issuer.

Global Economy

Financial and securities markets in the European Union and the United Kingdom are influenced by the economic and market conditions in other countries. Although economic conditions in these countries may differ significantly from economic conditions in Canada, international investors' reactions to developments in these other countries, may substantially affect capital inflows into the European Union economy, and the market value of securities of issuers with operations in the European Union and the United Kingdom.

Economic downturn or volatility could have a material adverse effect on the Issuer's business, financial condition and results of operations. In addition, weakening of economic conditions could lead to reductions in demand for the Issuer's products. For example, its revenues can be adversely affected by high unemployment and other economic factors. Further, weakened economic conditions or a recession could reduce the amount of income customers are able to spend on the Issuer's products. In addition, as a result of volatile or uncertain economic conditions, the Issuer may experience the negative effects of increased financial pressures on its clients. For instance, the Issuer's business, financial condition and results of operations could be negatively impacted by increased competitive pricing pressure, which could result in the Issuer incurring increased bad debt expense. If the Issuer is not able to timely and appropriately adapt to changes resulting from a weak economic environment, its business, results of operations and financial condition may be materially and adversely affected.

Additional Risks Relating to Doing Business Internationally

The Issuer may be subject to risks generally associated with doing business in international markets when it expands into the international markets, specifically Poland, Romania, Germany, other EU markets, the United Kingdom and potentially other global markets. Several factors, including legal and regulatory compliance and weakened economic conditions in any of the international jurisdictions in which the Issuer may do business could adversely affect such expansion and growth.

Additionally, if the Issuer enters into new international jurisdictions, such entries would require management attention and financial resources that would otherwise be spent on other parts of the business.

International business operations expose the Issuer to risks and expenses inherent in operating or selling products in foreign jurisdictions. In addition to the risks mentioned elsewhere, these risks and expenses could have a material adverse effect on the Issuer's business, results of operations or financial condition and include without limitation:

- adverse currency rate fluctuations;

- risks associated with complying with laws and regulations in the countries in which the Issuer intends to sell its products, and requirements to apply for and obtain licenses, permits or other approvals and the delays associated with obtaining such licenses, permits or other approvals;

- multiple, changing and often inconsistent enforcement of laws, rules and regulations;

- the imposition of additional foreign governmental controls or regulations, new or enhanced trade restrictions or non-tariff barriers to trade, or restrictions on the activities of foreign agents, and distributors;

- increases in taxes, tariffs, customs and duties, or costs associated with compliance with import and export licensing and other compliance requirements;

- the imposition of restrictions on trade, currency conversion or the transfer of funds or limitations on the Issuer's ability to repatriate non-Canadian earnings in a tax effective manner;

- the imposition of Canadian, UK European and/or other international sanctions against a country, company, person or entity with whom the Issuer may do business that would restrict or prohibit the Issuer's business with the sanctioned country, company, person or entity;

- downward pricing pressure on the Issuer's products in the Issuer's international markets, due to competitive factors or otherwise;

- laws and business practices favouring local companies;

- political, social or economic unrest or instability;

- expropriation and nationalization and/or renegotiation or nullification of necessary licenses, approvals, permits and contracts;

- greater risk on credit terms, longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;

- difficulties in enforcing or defending intellectual property rights; and

- the effect of disruptions caused by severe weather, natural disasters, outbreak of disease or other events that make travel to a particular region less attractive or more difficult.

Governments in certain foreign jurisdictions intervene in their economies, sometimes frequently, and occasionally make significant changes in policies and regulations. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on doing business, price controls, import controls, currency remittance, income and other taxes, royalties, the repatriation of profits, foreign investment, licenses and approvals and permits.

The Issuer's international efforts may not produce desired levels of sales. Furthermore, the Issuer's experience with selling products in Europe may not be relevant or may not necessarily translate into favourable results if it sells in other international markets. If and when the Issuer enters into new markets in the future, it may experience different competitive conditions, less familiarity by customers with the Issuer's brand and/or different customer requirements. As a result, the Issuer may be less successful than expected in expanding sales to new international markets. Sales into new international markets may take longer to ramp up and reach expected sales and profit levels, or may never do so, thereby affecting the Issuer's overall growth and profitability. To build brand awareness in these new markets, the Issuer may need to make greater investments in legal compliance, advertising and promotional activity than originally planned, which could negatively impact the expected profitability of sales in those markets.

Enforcement of Judgments

The Issuer was incorporated under the laws of the Province of British Columbia, however all of its assets are located outside Canada. As a result, investors may not be able to effect service of process within Canada upon the Issuer's potential future foreign directors or officers or enforce against them in Canadian courts judgments predicated on Canadian securities laws. Likewise, it may also be difficult for an investor to enforce in Canadian courts judgments obtained against these persons in courts located in jurisdictions outside Canada. As a result, shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the Board or controlling shareholders than they would as public shareholders of a Canadian company.

Difficulty Enforcing Canadian Law

All of the Issuer's assets and the assets of each of the directors and executive officers, except Jason Dussault and Henry Lees-Buckley, are located outside of Canada. Therefore, a judgment obtained against the Issuer, or the foreign directors and officers, including a judgment based on the civil liability provisions of the Canadian securities laws, may not be collectible in Canada and may not be enforced by a court in the United Kingdom. It also may be difficult to effect service of process in Canada or to assert Canadian securities law claims in original actions instituted in the European Union or United Kingdom. European or UK courts may refuse to hear a claim based on an alleged violation of Canadian securities laws reasoning that the European Union or UK is not the most appropriate forum in which to bring such a claim. In addition, even if a European or UK court agrees to hear a claim, it may determine that European or UK law and not Canadian law is applicable to the claim. If the Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by foreign law. As a result of the difficulty associated with enforcing a judgment against the Issuer or the Issuer in the UK or European Union, it may be difficult to collect any damages awarded by either a Canadian or a foreign court. See "Enforceability of Civil Liabilities".

1. Risks Related to Financial and Accounting

Access to Capital

The Issuer makes, and will continue to make, substantial investments and other expenditures related to acquisitions, research and development and marketing initiatives. Since its incorporation, the Issuer has financed these expenditures through offerings of its equity securities. The Issuer will have further capital requirements and other expenditures as it proceeds to expand its business or take advantage of opportunities for acquisitions or other business opportunities that may be presented to it. The Issuer may incur major unanticipated liabilities or expenses. The Issuer can provide no assurance that it will be able to obtain financing on reasonable terms or at all to meet the growth needs of its operations.

Market for Securities and Volatility of Share Price

There can be no assurance that an active trading market in the Issuer's securities will be established or sustained. The market price for the Issuer's securities could be subject to wide fluctuations. Factors such as announcements of quarterly variations in operating results and acquisition or disposition of properties, as well as market conditions in the industry, may have a significant adverse impact on the market price of the securities of the Issuer. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Foreign Sales and Currency Fluctuations

The Issuer's functional currency is denominated in Canadian dollars. The Issuer currently expects that sales will be denominated in euros or sterling pounds and may, in the future, have sales denominated in the currencies of additional countries in which it establishes operations or distribution. In addition, the Issuer incurs the majority of its operating expenses in euros and sterling pounds. In the future, the proportion of the Issuer's sales that are international may increase. Such sales may be subject to unexpected regulatory requirements and other barriers. Any fluctuation in the exchange rates of foreign currencies may negatively impact the Issuer's business, financial condition and results of operations. The Issuer has not previously engaged in foreign currency hedging. If the Issuer decides to hedge its foreign currency exposure, it may not be able to hedge effectively due to lack of experience, unreasonable costs or illiquid markets. In addition, those activities may be limited in the protection they provide the Issuer from foreign currency fluctuations and can themselves result in losses.

Estimates or Judgments Relating to Critical Accounting Policies

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. the Issuer bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, as provided in the notes to the Sativa Wellness Group Inc.'s Annual Financial Statements and the Annual Financial Statements, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue and expenses that are not readily apparent from other sources. The Issuer's operating results may be adversely affected if the assumptions change or if actual circumstances differ from those in the assumptions, which could cause the Issuer's operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the share price of the Issuer. Significant assumptions and estimates used in preparing the financial statements include those related to the credit quality of accounts receivable, income tax credits receivable, share based payments, impairment of non-financial assets, fair value of biological assets, as well as revenue and cost recognition.

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Refer to the Company's consolidated financial statements for the year ended December 31, 2019 and September 30, 2020 for description of accounting policies and other disclosures.

OUTSTANDING SHARE DATA

As of September 30, 2020 and the date of this MD&A, the Company had 302,592,941 issued and outstanding common shares.

RTO Transaction with Stillcanna Inc.

On September 24, 2020, the Company acquired all of the issued and outstanding shares of Sativa Group Plc. ("Sativa") through a share exchange at a ratio of approximately 0.33507 common shares of the Company for one common share of Sativa. The exchange ratio attributes an implied value for the entire issued share capital of Sativa of approximately £10,662,680 ($18,175,604) based on the closing price of a share of the Company at $0.095 on April 21, 2020. At the time of the acquisition, the Company determined that Sativa Group constituted a business as defined under IFRS 3, Business Combinations, and that it met the criteria for a reverse acquisition accounted for it as such. The Company has recognized the identifiable assets and liabilities acquired at their estimated acquisition date fair values.

Goodwill of $1,464,097 was recognised on completion of the acquisition, the details of consideration paid and the assets and liabilities of Sativa is as follows:

Consideration paid:	$
Common shares	17,785,204
Total consideration paid	**17,785,204**
Less: Value of net assets acquired	
Assets	
Cash	4,279,534
Accounts receivable	129,284
Inventories	520,334
Plant and equipment	5,136,632
Assets under finance lease	77,988
Intangible Assets	23,272
Refundable taxes	393,716
Other assets	252,866
Goodwill	8,719,906
Total assets	**19,533,532**
Liabilities	
Accounts payable	(987,648)
Other payables	(682,752)
Lease liability	(77,928)
Total liabilities	**(1,748,328)**
Net assets acquired	**17,785,204**

On September 7, 2020, the Canadian Securities Commission (CSE), conditionally approved the Listing Application for Sativa Wellness Group Inc. officially combining the operations of Sativa Group PLC and Stillcanna Inc. The shares of Sativa Wellness Group Inc. (formerly, Stillcanna Inc.) resumed trading on the CSE at the market open on September 30, 2020. Trading resumed on the CSE under a new symbol "SWEL". The Company also listed for trading on the AQSE Growth Market (the "AQSE") in the United Kingdom effective Thursday, October 1, 2020 under the symbol "SWEL".

Options:

A summary of the Company's stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price $
Balance December 31, 2018	2,165,000	0.40
Exercised, March 25, 2019	(125,000)	0.19
Exercised, March 29, 2019	(125,000)	0.19
Exercised, April 5, 2019	(80,000)	0.19
Granted, May 27, 2019	1,800,000	1.23
Granted, September 30, 2020	39,793,000	0.044
Expired, September 30, 2020	(1,285,000)	
Balance, September 30, 2020	42,143,000	0.11

Warrants:

A summary of the Company's warrant activity is as follows:

	Warrants Outstanding	Weighted Average Exercise Price
Balance, December 31, 2018	13,571,200	$ 0.34
Issued, May 7, 2019	12,076,925	$1.73
Exercised	(1,810,000)	$0.10
Exercised	(838,805)	$0.50
Exercised	(3,050,335)	$0.47
Expired, October 10, 2019	(4,774,560)	$0.50
Expired, May 7, 2020	(12,076,925)	$1.73
Issued, September 30, 2020	10,328,535	$0.242
Balance, September 30, 2020	13,426,035	$0.201

As of September 30, 2020, the following warrants were outstanding and exercisable:

Number of Warrants Outstanding	Exercise Price	Expiry Date	Number of Common Shares Issuable
3,097,500	$ 0.10	January 12, 2023	3,097,500
10,328,533	$ 0.242	December 18, 2022	**10,328,533**
13,426,033			**13,426,033**

APPOINTMENTS AND RESIGNATION OF DIRECTORS AND EXECUTIVE OFFICERS

On September 10, 2020, upon receiving conditional approval of the Listing Application from the Canadian Securities Exchange ("CSE"), Sativa Wellness Group announced a new team of executive officers and directors which were appointed as follows:

Board of Directors

Appointed – August 27, 2020	Resigned – August 27, 2020
Henry Lees-Buckley	Shae De Jaray
Joseph Colliver	Warren Robinson
Jonathan Wearing (Chairman)	William MacDonald
Angus Kerr	
Mark Blower	
Jason Dussault	

Officers

Appointed - September 1, 2020	Resigned – September 1, 2020
Henry Lees-Buckley – CEO	Jason Dussault – CEO
Joseph Colliver – CFO	Joel Leonard – CFO
Anne Tew – Corporate Secretary	Ilona Kiss – Corporate Secretary

FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES

During the period ended September 30, 2020, there has been no significant change in the Company's internal control over financial reporting.

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. They are also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the Company's consolidated financial statements for the period ended September 30, 2020.

The Chief Executive Officer and Chief Financial Officer of the Company have filed the Venture Issuer Basic Certificate with the Interim and Year End Filings on SEDAR at www.sedar.com.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("**NI 52-109**"), the venture issuer basic certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("**DC&P**") and internal control over financial reporting ("**ICFR**"), as defined in NI 52-109. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

APPROVAL

The Board of Directors of the Company has approved the disclosure contained in this MD&A and the Company will be provide copies upon request.