**SATIVA WELLNESS GROUP INC.**
**(Formerly STILLCANNA INC. )**

Condensed Interim Consolidated Financial Statements for the three and nine month periods ended September 30, 2020

*(Expressed in Canadian Dollars)*

**NOTICE OF NO AUDITOR REVIEW**
**OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102 “Continuous Disclosure Obligations”, if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited interim condensed financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

January 15, 2021

**SATIVA WELLNESS GROUP INC.**

Condensed Interim Consolidated Statements of Financial Position

*(Unaudited-Expressed in Canadian dollars)*

| | Note | September 30, 2020 | December 31, 2019 (Audited) |
|---|---|---|---|
| | | $ | $ |
| **Assets** | | | |
| Cash and cash equivalents | 4 | **4,908,663** | 3,414,660 |
| Trade receivables | | **269,626** | 247,284 |
| Refundable sales taxes receivable | | **459,025** | 251,951 |
| Inventories | 6 | **574,260** | 356,028 |
| Assets held for sale | 10 | **412,893** | - |
| Prepaid expenses and deposits | 7 | **226,685** | 81,535 |
| Other current assets | | **275,693** | 276,271 |
| **Total Current Assets** | | **7,126,845** | 4,627,729 |
| Plant and equipment | 8 | **5,792,254** | 1,149,221 |
| Right of use assets | 9 | **791,268** | 919,306 |
| Intangible assets | 11 | **79,261** | - |
| Goodwill | 11 | **9,704,064** | 980,377 |
| Investments | | **-** | 123,734 |
| **Total Assets** | | **23,493,692** | 7,800,367 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | **1,859,731** | 598,705 |
| Current portion of lease obligation | 12 | **301,969** | 291,240 |
| Other current liabilities | | **224,951** | 137,974 |
| | | **2,386,651** | 1,027,919 |
| Long-term portion of lease obligation | 12 | **653,354** | 772,317 |
| **Total Liabilities** | | **3,040,005** | 1,800,236 |
| **Shareholders' Equity** | | | |
| Share capital | | **28,746,329** | 11,739,157 |
| Share based payment reserve | | **4,741,155** | 3,256,833 |
| Other reserves | | **907,582** | **-** |
| Translation Reserve | | **(107,848)** | - |
| Deficit retained | | **(13,833,531)** | (8,995,859) |
| **Shareholders' Equity** | | **20,453,687** | 6,000,131 |
| **Total Liabilities and Shareholders' Equity** | | **23,493,692** | 7,800,367 |

Nature and continuance of operations and going concern (note 1)

Subsequent events (note 16)

Approved and authorized for dissemination on behalf of the Board of Directors on January 15, 2021:

***"Henry Lees-Buckley"***
Henry Lees-Buckley - Director

***"Joseph Colliver"***
Joseph Colliver - Director

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

**SATIVA WELLNESS GROUP INC.**

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

*(Unaudited - Expressed in Canadian dollars)*

| | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| | **$** | $ | **$** | $ |
| Revenue | **826,363** | 629,827 | **2,086,866** | 1,586,345 |
| Cost of sales related to inventory production | **389,051** | 243,055 | **921,015** | 755,770 |
| Impairment on inventory (Note 4) | **36,552** | — | **36,552** | — |
| **Gross profit** | **400,760** | 386,772 | **1,129,299** | 830,575 |
| **Expenses** | | | | |
| Administrative | **25,948** | 61,143 | **114,128** | 157,696 |
| Amortization (Notes 8, 9, and 10) | **128,343** | 122,672 | **449,473** | 207,769 |
| Advertising | **164,976** | 280,660 | **682,677** | 540,581 |
| Consulting (Note 16) | **33,712** | 31,535 | **113,788** | 144,400 |
| Financial | **27,766** | 23,684 | **76,557** | 32,348 |
| Infrastructure | **94,057** | 97,145 | **284,209** | 316,369 |
| Insurance | **19,509** | 19,020 | **88,619** | 40,656 |
| Operational | **16,244** | 35,845 | **92,122** | 69,386 |
| Professional fees | **341,053** | 233,105 | **1,065,236** | 589,025 |
| Share based payments (Notes 14 and 16) | **352,787** | 321,026 | **1,782,450** | 935,349 |
| Travel | **5,225** | 61,434 | **40,789** | 180,341 |
| Wages and salaries (Note 16) | **650,334** | 708,936 | **2,018,036** | 1,647,745 |
| **Operating loss before other items** | **(1,459,194)** | (1,609,435) | **(5,678,785)** | (4,031,090) |
| **Other items** | | | | |
| Finance income | **125,620** | — | **294,700** | — |
| Foreign exchange gain (loss) | **(38,891)** | (2,392) | **(38,891)** | (6,534) |
| Loss on investments | **-** | - | **(10,667)** | (106,481) |
| Loss on sale of equipment | **(1,365)** | 62 | **(15,472)** | (8,158) |
| Impairment on plant & equipment | **-** | - | **(3,392)** | - |
| **Loss before income tax** | **(1,373,830)** | (1,611,765) | **(5,452,507)** | (4,152,263) |
| **Income tax recovery** | 178,791 | — | 221,702 | — |
| **Net loss** | **(1,195,039)** | (1,611,765) | **(5,230,805)** | (4,152,263) |
| **Other comprehensive income** | | | | |
| Currency translation adjustment | **(107,848)** | - | **(107,848)** | - |
| **Net loss and comprehensive loss** | **(1,302,887)** | (1,611,765) | **(5,338,653)** | (4,152,263) |
| **Basic and diluted loss per common share (Cents)** | **(0.658)** | (0.909) | **(2.764)** | (2.388) |
| **Weighted average number of common shares outstanding** | **197,949,175** | 177,382,792 | **193,146,128** | 173,851,915 |

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

**SATIVA WELLNESS GROUP INC.**

Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited - *Expressed in Canadian dollars)*

| | Number of Outstanding Shares | Share Capital | Share Premium Reserve | Share Based payment Reserve | Other Reserves | Translation Reserve | Deficit | Total Shareholders Equity |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| **Balance, January 1, 2019** | 38,883,000 | 2,072,909 | 7,914,764 | 1,097,784 | — | — | (3,022,976) | 8,062,481 |
| Units issued for cash | 21,187,587 | — | — | — | — | — | — | — |
| Share issuance costs | — | — | (1,301) | | | | | (1,301) |
| Acquisition of subsidiary | 44,800,000 | — | — | — | — | — | — | — |
| Exercise of warrants | 3,571,305 | — | — | — | — | — | — | — |
| Exercise of options | 330,000 | 100,820 | 315,082 | — | — | — | — | 415,902 |
| Share-based payments | — | — | — | 970,849 | — | — | — | 970,849 |
| Transfer for options forfeited | — | — | — | (647,200) | — | — | 647,200 | — |
| Net loss | — | — | — | — | — | — | (4,799,463) | (4,799,463) |
| **Balance, September 30, 2019** | 108,771,892 | 2,173,729 | 8,228,545 | 1,421,433 | — | — | (7,175,239) | (4,648,468) |
| **Balance, January 01, 2020** | 110,874,747 | 2,447,997 | 9,336,439 | 3,269,395 | — | — | (9,031,429) | 6,022,402 |
| Share-based payments | — | — | — | 1,541,603 | — | — | 240,848 | 1,782,451 |
| Transfer for options forfeited | — | — | — | (187,856) | — | — | 187,856 | — |
| Share issuance costs | 1,000,000 | 95,000 | (5,161) | — | — | — | (95,000) | (5,161) |
| Reverse acquisition Sept 24, 2020 | 190,718,214 | 26,203,332 | (9,331,278) | 118,013 | 907,582 | — | — | 17,879,649 |
| Currency translation reserve | — | — | — | — | — | (107,848) | — | (107,848) |
| Net loss post acquisition | — | — | — | — | — | — | (5,135,806) | (5,135,806) |
| **Balance, September 30, 2020** | 302,592,961 | 28,746,329 | — | 4,741,155 | 907,582 | (107,848) | (13,833,531) | 20,453,687 |

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

**SATIVA WELLNESS GROUP INC.**

Condensed Interim Consolidated Statements of Cash Flows

*(Unaudited - Expressed in Canadian dollars)*

| | For the Nine Months Ended September 30, 2020 | 2019 |
|---|---|---|
| | $ | $ |
| **Cash flows from operating activities** | | |
| Net loss | **(5,338,654)** | (4,152,263) |
| Adjustments for non-cash items: | | |
| Amortization (note 8/9/11) | **449,473** | 207,769 |
| Share based payments (note 13) | **1,782,450** | 935,349 |
| Share based payment adj forfeited options | **240,848** | - |
| Interest on lease liabilities | **22,347** | 20,364 |
| Loss on sale of plant and equipment | **15,472** | 8,158 |
| Loss on investment | **10,667** | 106,482 |
| Impairment of inventory | **36,552** | - |
| Foreign exchange (gain) / loss | **158,547** | 6,534 |
| Changes in non-cash working capital items: | | |
| Trade receivables | **227,325** | (601,410) |
| Inventory | **(156,923)** | (126,589) |
| Other current assets | **-** | — |
| Accounts payable and accrued liabilities | **(144,138)** | 282,233 |
| Other current liabilities | **-** | — |
| **Cash used in operating activities** | **(2,696,034)** | (3,313,373) |
| | | |
| **Cash flows from investing activities** | | |
| Net cash inflow on acquisition of businesses (note 5) | **4,279,534** | - |
| Proceeds from listed investments | **113,067** | - |
| Investment in plant and equipment (note 8) | **(103,097)** | (788,204) |
| Proceeds for sale of plant & equipment | **79,486** | 8,456 |
| Leasehold improvements | **-** | - |
| Payment for Intangibles | **(60,212)** | - |
| Cash received on acquisition of subsidiary | **-** | - |
| **Net cash used in investing activities** | **4,308,778** | (779,748) |
| | | |
| **Cash flows from financing activities** | | |
| Payments on lease liability | **(208,580)** | (56,101) |
| Net proceeds from common share offering | - | 414,557 |
| Share issuance cost | **89,839** | - |
| **Net cash provided by financing activities** | **(118,741)** | 358,456 |
| **Net increase in cash** | **1,494,003** | (3,734,665) |
| **Cash, beginning** | **3,414,660** | 6,086,151 |
| **Cash, ending** | **4,908,663** | 2,351,486 |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Sativa Wellness Group Inc. (the "Company") was incorporated under the Business Corporations Act (British Columbia). The head office, principal address and records office of the Company are located at 503-905 West Pender St., Vancouver, British Columbia, V6C 1L6.

On September 18, 2020, the Company changed its name from StillCanna Inc. to Sativa Wellness Group Inc. and now trades on the Canadian Securities Exchange (the "CSE") and on the Aquis Exchange in London, UK (the "AQSE") under the symbol "SWEL" and on the OTC in Frankfurt under the symbol "484".

On February 26, 2019, the Company acquired all of the issued and outstanding shares of Borganic Consulting Inc. ("Borganic") in exchange for 15,000,000 common shares of the Company (the "Transaction") (Note 4). Borganic is focused on the commercial extraction of cannabidiol ("CBD") from industrial hemp. In connection with the Transaction, the Company also issued 1,800,000 common shares to certain finders and 2,000,000 common shares to certain consultants in exchange for financial advisory services. Upon closing of the Transaction, Borganic became a wholly owned subsidiary.

On March 15, 2019, the Company changed its name from EVI Global Group Developments Corp. to Stillcanna Inc. and traded under the symbol "STIL" on the Canadian Securities Exchange.

On May 7, 2019, the Company acquired all of the issued and outstanding shares of Olimax NT SP. Z .O.O. ("Olimax") (Note 5) in exchange for $2,000,000 in cash and 24,000,000 common shares of the Company. The Company issued 1,300,000 common shares to certain finders and 700,000 common shares to certain consultants in exchange for financial advisory services.

On March 11, 2020, the Company acquired all of the issued and outstanding shares of Olimax Nieruchomosci SP. Z .O.O. ("Olimax RE") in exchange for $100.

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. (Note 15). Sativa Group Plc had a number of subsidiary operating companies including Goodbody Botanicals Ltd, Phytovista Laboratories Ltd, Goodbody Wellness Ltd and Sativa Cultivational and Extraction Ltd. On September 11, 2020, the company changed its name from Stillcanna Inc to Sativa Wellness Inc and now trades on both the CSE and the UK AQSE under the symbol "SWEL".

<u>Going concern</u>

These financial statements have been prepared by management on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company expects to incur some further losses in the development of its business, all of which could indicate the existence of a material uncertainty that casts doubt about the Company's ability to continue as a going concern. A number of alternatives including, but not limited to selling an interest in one or more of its assets or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. Operational growth during 2020 demonstrated that, through diversification into both sanitizer sales and COVID testing, the group was able to respond positively in the context of the global pandemic which has affected all companies.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due.

COVID-19

The recent outbreak of the coronavirus known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions.

There are significant uncertainties with respect to future developments and impact to the Company related to the COVID-19 pandemic, including the duration, severity and scope of the outbreak and the measures taken by governments and businesses to contain the pandemic. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations cannot be reasonably estimated at this time. As at the approval date of these condensed consolidated interim financial statements, the outbreak and the related mitigation measures have had the following impacts on the Company's operations, among others: temporary closure of business locations, supply chain issues, and decrease in sales. The extent to which these events may further impact the Company's business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada, United Kingdom, Poland and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine the ultimate financial impacts at this time. Any deterioration in the current situation could have an adverse impact on our business, results of operations, financial position and cash flows in Q4 2020, 2021 and beyond.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Accounting Standards ("IAS") 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company's annual audited financial statements for the year ended December 31, 2019. The Company's significant accounting policies are further described below. These financial statements do not include all of the information required for full annual financial statements in accordance with International Financial

Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and should be read in conjunction with the annual audited financial statements.

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

Basis of measurement

These condensed interim consolidated financial statements are presented in Canadian dollars. These financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of consolidation

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiaries listed in the following table:

| Name of Subsidiary | Place of Incorporation | Ownership Interest | |
|---|---|---|---|
| | | September 30, 2020 | September 30, 2019 |
| Borganic | Romania | 100% | 100% |
| Olimax | Poland | 100% | 100% |
| Olimax RE | Poland | 100% | — |
| Sativa Group | England | 100% | — |
| Goodbody Botanicals | England | 100% | — |
| Phytovista Laboratories | England | 100% | — |
| Sativa GMBH | Germany | 60% | |
| Goodbody Wellness | England | 100% | — |
| Sativa Cultivation and Extraction | England | 100% | — |

All intercompany transactions, unrealized gains and balances have been eliminated on consolidation.

Use of estimates and judgements

The preparation of these condensed interim consolidated financial statements requires the use of estimates and judgements that affect the application of the Company's accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and the underlying assumptions which are used to create these estimates are reviewed on an ongoing basis by the Company's management. Any revisions to accounting estimates are recognized in the period which the estimates are revised and in any future periods effected.

*(a) Business combinations*

Management uses judgement when determining whether an acquisition constitutes a business combination, or an acquisition of assets based on the facts and circumstances of the transaction by comparison to the criteria listed in IFRS 3 – Business Combinations. In order to determine the purchase price of a business combination, including any acquisition-related contingent consideration, and determining the allocation of the purchase price requires estimation of fair value of the non-cash consideration and fair value of the assets acquired and liabilities assumed.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

*(c) Property, plant and equipment and intangible assets*

Estimates of the useful lives of property and equipment and intangible assets are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and are updated if expectations differ from previous estimates due to technical or commercial obsolescence, not electing to exercise renewal options on Leases, and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of the relevant assets may be based on internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

*(d) Share-based compensation*

The Company uses the Black-Scholes Option-Pricing Model to determine the grant date fair value of share-based compensation. The following assumptions are used in the model:

- Expected volatility;
- Risk-free interest rate;
- Fair value (based on its value as though it was vested at the grant date); and
- Expected option life.

*(e) Critical Judgments in Determining the Lease Term*

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event of a significant changes in circumstance occurs which affects this assessment.

## 3. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses and is accounted for using the acquisition method. The total consideration paid for the acquisition is the aggregate of the fair values of assets acquired, liabilities assumed, and equity instruments issued in exchange for control of the acquiree at the acquisition date. The acquisition date is the date when the Company obtains control of the acquiree. The identifiable assets acquired and liabilities assumed are recognized at their acquisition date fair values, except for deferred taxes and share-based payment awards where IFRS provides exceptions to recording the amounts at fair value. Goodwill represents the difference between total consideration paid and the fair value of the net-identifiable assets acquired. Acquisition costs incurred are expensed to profit or loss.

(b) Plant and Equipment

Plant and equipment is measured at cost, net of accumulated depreciation and any impairment losses. Construction costs, including borrowing costs, that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized. Depreciation is recognized on a declining basis using the following rates:

| | |
|---|---|
| Plant and equipment | 3 – 15 years |
| Leasehold improvements | 3 – 10 years |
| Automobiles | 7 – 10 years |
| Other tangible assets | 4 – 5 years |

Factors including residual value, useful lives and depreciation methods for each class of property, plant and equipment are reviewed at least annually and adjusted when appropriate. When individual parts of equipment have determinable useful lives which differ from the asset as a whole, they are accounted for as separate items of property, plant and equipment. Land is not depreciated.

Gains and losses on disposal of items of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item at the date of disposal and recognized in profit or loss. Assets and construction in progress are transferred to building, production equipment, and building improvements when available for use, which is defined as when they are in the location and condition necessary to be capable of operating in the manner intended by management, and depreciation of the asset commences at that point.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Inventory

Inventory consists of hemp raw materials and cannabinoid oil finished products that are carried at the lower of cost or net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies and consumables are valued at lower of cost and net realizable value.

The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory are written down to net realizable value.

Raw materials held for use in production are not written down below acquisition or cost of production if the products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the products exceeds net realizable value, the materials are written down to net realizable value.

(d) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding costs and professional fees required to obtain licenses or IP evaluated as having a market value, are not capitalized and expenditures are reflected in the consolidated statements of loss and comprehensive loss in the period which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the remaining amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of loss and comprehensive loss in the expense category consistent with the function of the intangible assets and are amortized over 5-10 years.

(e) Goodwill

Goodwill is only recognized as part of business combinations and is an asset representing the future economic benefits produced by assets acquired in a merger or acquisition that are not individually recognised. Whether goodwill is impaired is assessed each year. Goodwill is measured at historical cost less any impairment losses. Goodwill is not amortized, but is systematically tested for impairment annually in the fourth quarter or earlier if there is an indication of impairment. An increase in interest rates and a drop-in sales or in operating profit are some of the indicators of impairment that management monitors.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Shared-based payments

The Company operates a stock option plan. The Company may grant stock options to buy capital stock of the Company to directors, officers, consultants and employees from time to time. The board of directors grant such options for periods of up to ten years, with vesting periods determined at its discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes Option Pricing Model, and is recognized over the period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where equity instruments are granted to non-employees , they are recorded at the fair value of the goods or services received unless that fair value cannot be estimated reliably in which case they are measured at the fair value of the equity instruments granted. Amounts related to the issuance of Shares are recorded as a reduction of share capital. If the fair value of the goods or services received cannot be estimated reliably, the goods or services received, and the corresponding increase in equity are measured, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service.

(g) Deferred income taxes

Deferred income tax assets and liabilities are recognized for deferred income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realised, or the liability settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a deferred income tax asset will be recovered, the deferred income tax assets is reduced. Deferred income tax assets and liabilities are offset only if a legally enforceable right exists to offset current tax assets against liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(h) Loss per share

Basic loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is calculated by dividing income available to common shareholders by the weighted average number of shares outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire common stock

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Loss per share (continued)

at the average market price during the reporting period. Because the Company incurred net losses, the effect of dilutive instruments would be anti-dilutive and therefore diluted loss per share equals basic loss per share.

(i) Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of Olimax and Olimax RE, subsidiaries that have operations in Poland, is the Polish Zloty. The functional currency of Borganic is the Canadian dollar. The functional currency of Sativa Group. Goodbody Botanicals, Goodbody Wellness, Sativa Cultivation and Extraction, and Phytovista Laboratories, subsidiaries with operations in the UK, is British Pounds.

Transactions and balances:
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:
The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Impairment of non-financial assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. A cash generating unit is the smallest group of assets for which there are separate identifiable cash flows.

Where an impairment loss, subsequently reverses, excluding goodwill which cannot be reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(m) Impairment of assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of returns and discounts.

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.
For product sales of cannabis and cannabis derivative products, the Company transfers control and satisfies its performance obligation when collection has taken place, compliant documentation has been signed and the product was accepted by the buyer.

(n) Financial instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement". A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The following table shows the classification under IFRS 9:

| Financial asset/ liability | Classification IFRS 9 |
|---|---|
| Cash and cash equivalents | FVTPL |
| Trade receivables | Amortized cost |
| Accounts payable and accrued liabilities | Amortized cost |

Non-derivative financial assets
The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred.

Financial assets at FVTPL
Financial assets carried at FVTPL are initially recorded at fair value, and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit and loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated specifically as hedges.

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(n) Financial instruments (Continued)

Financial assets at FVTOCI
Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income following the derecognition of the investment.

Financial assets at amortized cost
Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. Gains and losses on derecognition of financial assets classified amortized cost are recognized in profit or loss.

Financial liabilities
Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Expected credit losses
The Company is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) General Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Provisions are also recognized where there is a reasonable probability that assets being held, such and stock or trade debtors, will not achieve the expected value in the financial statements. These provisions will reduce the value to a more likely value.

(o) Leases

On January 1, 2019, the Company adopted IFRS 16 which replaced IAS 17 “Leases” and related interpretations. The standard introduced a single lessee accounting model and requires a lessee to recognize a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, less any lease incentive received. The right of use asset is subsequently depreciated to the earlier of the end of the useful life of the right of use asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The right of use asset may be adjusted for certain remeasurements of the lease liability and impairment losses, if any.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company’s incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonable similar characteristics. The lease liability is measured at the amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the Company’s assessment of whether it will exercise a purchase, extension or termination option.

Leases that have a term of less than 12 months or leases with an underlying asset of low value are recognized as expenses to profit or loss.

*(Unaudited- Expressed in Canadian dollars)*

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents consist of the following:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Cash held in banks | 1,983,225 | 3,414,660 |
| Guaranteed investment certificate | 2,925,438 | - |
| | 4,908,663 | 3,414,660 |

## 5. BUSINESS COMBINATION

***Acquisition of Sativa Group***

On September 24th, 2020 the Company acquired all of the shares of Sativa Group Plc, a publicly held English company acting as a manufacturer and seller of cannabidiols oils, in exchange for the issuance of 190,718,214 common shares. The shares were issued using a share exchange ratio of 0.33507 New Sativa Wellness Group Inc Shares in exchange for each Sativa Group Plc Share.

The acquisition was recommended by both boards as the combination of the businesses allowed for a complete 'Seed to Consumer' offer that supports commercial supply objectives, Novel food management and quality objectives. In addition, the discount offered by Sativa Group was evaluated as less than the cost of raising funds equivalent to the cash increase achieved through the merger.

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 so accounted for it as such. Therefore, Sativa Group for reporting purposes is the acquirer. The Company has recognized the identifiable assets and liabilities acquired at their estimated acquisition date fair values.

The revenue included in the reporting period representing September 24, 2020 to September 30, 2020 for the acquiree is $25,699 and the loss was $135,213. The revenue generated by the combined entity for the whole period was $2,529,928 .

| | |
|---|---|
| **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 |

*(Unaudited- Expressed in Canadian dollars)*

| | |
|---|---|
| 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** |

The common shares value was estimated using the closing value of the share price prior to suspension for the acquisition.

The goodwill recognized on the acquisition is primarily attributed to the assembled workforce and the synergies which will contribute to operational efficiencies within the Company.

The Company granted 1,000,000 common shares as a finder's fee with a fair value of $95,000. This cost was expensed to profit and loss.

## 6. INVENTORIES

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Raw materials | **35,704** | 110,965 |
| Hemp oil products | **27,306** | - |
| Finished goods and goods for resale | **511,250** | 245,063 |
| | **574,260** | 356,028 |

During the nine months ended September 30, 2020, the Company tested inventories for impairment and wrote down the CBD inventory to its net realizable value, which resulted in an impairment provision of $36,552.

## 7. PREPAID EXPENSES

| | **September 30, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Deposits on land leases | **9,860** | - |
| IT/Licences | **16,721** | 13,441 |
| Prepaid insurance | **100,786** | 25,074 |
| Rent/Rates | **67,093** | 17,119 |
| Stock exchange listing fees | **-** | 11,450 |
| Subscriptions | **13,775** | 1,473 |
| Other prepaid expenditures | **18,450** | 12,978 |
| Balance | **226,685** | 81,535 |

(Unaudited-Expressed in Canadian dollars)

## 8. PLANT AND EQUIPMENT

| **Cost:** | **Plant and equipment** $ | **Computer Equipment** $ | **Transport-ation equipment** $ | **Leasehold improve-ments** $ | **Furniture and fittings** $ | **Buildings** $ | **Assets under construction** $ | **Land** $ | **Total** $ |
|---|---|---|---|---|---|---|---|---|---|
| Balance, January 1, 2019 | 365,057 | 39,793 | - | 219,727 | 20,762 | - | - | - | 645,339 |
| Additions | 289,160 | 148,639 | - | 338,425 | 37,325 | - | 65,991 | - | 879,540 |
| Disposals | (18,046) | (2,708) | - | - | - | - | - | - | (20,754) |
| Impairment adjustment | - | - | - | - | - | - | - | - | - |
| Balance December 31, 2019 | 636,171 | 185,724 | - | 558,152 | 58,087 | - | 65,991 | - | 1,504,125 |
| Additions | 36,173 | 68,787 | - | 64,127 | - | - | - | - | 169,087 |
| Disposals | (21,948) | (27,745) | - | (101,962) | (846) | - | (65,991) | - | (218,492) |
| Additions from the business combination (Note | 1,487,514 | 17,372 | 36,334 | 15,220 | - | 20,476 | 3,552,623 | 7,092 | 5,136,631 |
| Exchange difference | (16,197) | 1,613 | (487) | 2,154 | 224 | (183) | (31,821) | (64) | (44,761) |
| Impairment adjustment | (218,842) | - | - | - | - | - | - | - | (218,842) |
| Balance, September 30, | 1,902,871 | 245,751 | 35,847 | 537,691 | 57,465 | 20,293 | 3,520,802 | 7,028 | 6,327,748 |

(Unaudited-Expressed in Canadian dollars)

| **Accumulated depreciation:** | **Plant and equipment** | **Computer Equipment** | **Transport-ation equipment** | **Leasehold improve-ments** | **Furniture and fittings** | **Buildings** | **Assets under construction** | **Land** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance, January 1, 2019 | 31,834 | 5,190 | - | 12,111 | 1,730 | - | - | - | 50,865 |
| Disposals | (3,050) | - | - | - | - | - | - | - | (3,050) |
| Depreciation | 106,616 | 38,831 | - | 134,987 | 9,517 | - | - | - | 289,951 |
| Exchange adjustments | - | - | - | - | — | - | - | - | - |
| Balance, December 31, 2019 | 135,400 | 44,021 | - | 147,098 | 11,247 | - | - | - | 337,766 |
| Disposals | (5,614) | (11,286) | | (39,949) | (71) | - | - | - | (56,920) |
| Depreciation | 77,699 | 54,200 | - | 108,415 | 14,334 | - | - | - | 254,648 |
| Balance, September 30, 2020 | 207,485 | 86,935 | - | 215,564 | 25,510 | - | - | - | 535,494 |
| Impairment | - | - | - | 17,137 | - | - | - | - | 17,137 |
| Net book value, December 31, 2019 | 500,771 | 141,703 | - | 393,916 | 46,840 | - | 65,991 | - | 1,149,221 |
| **Net book value, September 30,** | **1,695,386** | **158,816** | **35,847** | **322,127** | **31,955** | **20,293** | **3,520,802** | **7,028** | **5,792,254** |

(Unaudited-Expressed in Canadian dollars)

## 9. RIGHT OF USE ASSETS

| **Cost:** | **Transportation Equipment** $ | **Equipment** $ | **Building** $ | **Total** $ |
|---|---|---|---|---|
| Balance, December 31, 2019 | — | 15,310 | 1,054,832 | 1,070,142 |
| Additions through business combination | 29,388 | 47,960 | — | 77,348 |
| Exchange differences | — | — | (12,690) | (12,690) |
| Balance, September 30, 2020 | 29,388 | 63,270 | 1,042,142 | 1,134,800 |
| **Accumulated depreciation:** | | | | |
| Balance, December 31, 2019 | - | 5,215 | 145,621 | 150,836 |
| Depreciation | - | 3,863 | 188,833 | 192,696 |
| Balance, September 30, 2020 | - | 9,078 | 334,454 | 343,532 |
| **Net book value, December 31, 2019** | **-** | **10,095** | **909,211** | **919,306** |
| **Net book value, September 30, 2020** | **29,388** | **54,192** | **707,688** | **791,268** |

## 10. ASSETS HELD FOR SALE

| | **Total** |
|---|---|
| **Cost:** | $ |
| Balance, December 31, 2019 | — |
| Assets transferred on business combination | 412,893 |
| Balance, September 30, 2020 | 412,893 |

As at September 30, 2020 the Company had excess electricity generating equipment that was held for sale. The Company valued the equipment at fair value less cost of disposal and is working with the manufacturer of the equipment to actively sell the equipment.

(Unaudited-Expressed in Canadian dollars)

## 11. INTANGIBLE ASSETS AND GOODWILL

| | Brands | Goodwill | Total |
|---|---|---|---|
| **Cost:** | **$** | **$** | **$** |
| Balance, January 1, 2019 | - | 980,377 | 980,377 |
| Additions | - | - | - |
| Balance, December 31, 2019 | - | 980,377 | 980,377 |
| Additions | 60,212 | - | 60,212 |
| Additions from the business combination (Note 5) | 23,063 | 8,719,906 | 1,487,160 |
| Exchange adjustments | - | 3,781 | 3,781 |
| Balance, September 30, 2020 | 83,275 | 9,704,064 | 2,531,530 |
| **Accumulated depreciation:** | | | |
| Balance, January 1, 2019 | - | - | - |
| Depreciation | - | - | - |
| Balance, December 31, 2019 | - | - | - |
| Depreciation | 4,014 | - | 4,014 |
| Balance, September 30, 2020 | 4,014 | - | 4,014 |
| **Net book value, December 31, 2019** | - | 980,377 | 980,377 |
| **Net book value, September 30, 2020** | **79,261** | **9,704,064** | **2,527,516** |

On each reporting date, the Company assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of any of its reporting units below their carrying values and, therefore, require the intangible assets and goodwill to be tested for impairment. During the nine months ended September 30, 2020, the Company recorded no impairment charge on intangible assets or goodwill (2019 - $nil).

## 12. LEASE OBLIGATIONS

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Gross lease liabilities – minimum lease payments: | $ | $ |
| No later than 1 year | 326,342 | 346,245 |
| Later than 1 year and no later than 5 years | 673,742 | 849,959 |
| | 1,000,084 | 1,196,204 |
| Future interest charges on lease liabilities | (44,761) | (132,648) |
| Present value of lease liability | 955,323 | 1,063,556 |
| Current | 301,969 | 291,240 |
| Non-current | 653,354 | 772,316 |

(Unaudited-Expressed in Canadian dollars)

## 13. SHARE CAPITAL

a. Authorized: unlimited common shares without par value
unlimited preferred shares without par value

b. Issued and Outstanding:

On September 24, 2020, the Company acquired all of the issued and outstanding shares of Sativa Group Plc ("**Sativa**") in exchange for 190,718,214 common shares of the Company, 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 (C$18,175,604) based on the closing price of a share of the Company at $0.095 on April 21, 2020. In connection with the Transaction, the Company also issued 1,000,000 common shares for financial advisory services.

On September 24, 2020, the Application for Sativa Wellness Group Inc. officially combining the operations of Sativa Group PLC and Sativa Wellness Group Inc. was concluded. 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".

*Stock* options*:*

During the year ended July 31, 2018, the Board approved the adoption by the Company of a new fixed number share option plan (the "Fixed Option Plan"), subject to shareholder and regulatory approval. The Fixed Option Plan is designed to provide certain directors, officers and other key employees of the Company with incentive share options at the discretion of the Board. Options are to be granted at the discretion of the Board to Service Providers as defined in the Fixed Option Plan. Capitalized terms used but not defined have the meanings ascribed to them in the Fixed Option Plan.

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 |

(Unaudited-Expressed in Canadian dollars)

**13. SHARE CAPITAL (continued)**

As of September 30, 2020, the following stock options were outstanding:

| Number of Options Outstanding | Exercise Price $ | Expiry Date | Vesting Criteria | Number of Common Shares Issuable |
|---|---|---|---|---|
| 24,899,710 | 0.02509 | June 3, 2025 | Vested | 24,899,710 |
| 4,188,375 | 0.02509 | March 1, 2023 | Vested | 4,188,375 |
| 335,070 | 0.05018 | January 12, 2023 | Vested | 335,070 |
| 650,000 | 0.19 | July 31, 2023 | Vested | 600,000 |
| 1,050,000 | 0.63 | October 23, 2023 | Vested | 750,000 |
| 1,800,000 | 1.23 | May 27, 2024 | Vested | 1,000,000 |
| 1,122,485 | 0.07528 | March 30, 2030 | March 30, 2022 | 1,122,485 |
| 2,010,420 | 0.11291 | March 30, 2030 | Vested | 2,010,420 |
| 2,084,880 | 0.11291 | March 30, 2030 | ½ March 30, 2021/ ½ March 30, 2022 | 2,084,880 |
| 180,422 | 0.32619 | March 30, 2030 | Vested | 180,422 |
| 206,197 | 0.32619 | March 30, 2030 | ½ March 30, 2021/ ½ March 30, 2022 | 206,197 |
| 38,527,559 | | | | 38,527,559 |

The weighted average exercise price and weighted average life are $0.1129 and 4.94 years, respectively. As of September 30, 2020, 33,963,997 stock options are exercisable.

For each accounting period the options fair value is calculated using the Black-Scholes Option Pricing Model using the following input assumptions:

| | |
|---|---|
| Risk-free interest rate | 0.9% |
| Estimated life | 5 year |
| Expected volatility | 100% |
| Expected dividend yield | 0% |

*purchase warrants:*

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

| | Warrants Outstanding | Weighted Average Exercise Price $ | Share Price on Exercise Date $ |
|---|---|---|---|
| Balance, December 31, 2018 | 13,571,200 | 0.34 | |
| Exercised, January 28, 2019 | (25,000) | 0.10 | 0.63 |
| Exercised, February 06, 2019 | (260,000) | 0.10 | 0.63 |

(Unaudited-Expressed in Canadian dollars)

| | | | |
|---|---|---|---|
| Exercised, March 22, 2019 | (265,000) | 0.10 | 1.25 |
| Exercised, March 25, 2019 | (100,000) | 0.10 | 1.27 |
| Exercised, March 26, 2019 | (97,433) | 0.50 | 1.35 |
| Exercised, March 26, 2019 | (150,000) | 0.10 | 1.35 |
| Exercised, March 29, 2019 | (131,372) | 0.50 | 1.53 |
| Exercised, April 05, 2019 | (7,500) | 0.50 | 1.33 |
| Exercised, April 10, 2019 | (510,000) | 0.10 | 1.35 |
| Exercised, April 30, 2019 | (27,500) | 0.50 | 1.28 |
| Exercised, May 03, 2019 | (69,000) | 0.50 | 1.26 |
| Exercised, May 15, 2019 | (142,000) | 0.50 | 1.24 |
| Issued, May 7, 2019 | 12,076,925 | 1.73 | |
| Exercised, May 27, 2019 | (114,000) | 0.50 | 1.20 |
| Exercised, June 06, 2019 | (250,000) | 0.50 | 1.17 |
| Exercised, June 10, 2019 | (200,000) | 0.10 | 1.00 |
| Exercised, July 10, 2019 | (300,000) | 0.10 | 1.00 |
| Exercised, August 06, 2019 | (162,500) | 0.10 | 0.85 |
| Exercised, August 09, 2019 | (80,000) | 0.10 | 0.73 |
| Exercised, August 23, 2019 | (80,000) | 0.50 | 0.74 |
| Exercised, August 26, 2019 | (600,000) | 0.50 | 0.69 |
| Exercised, October 08, 2019 | (215,500) | 0.50 | 0.50 |
| Exercised, October 09, 2019 | (892,335) | 0.50 | 0.51 |
| Exercised, October 10, 2019 | (1,020,000) | 0.50 | 0.51 |
| Expired, October 10, 2019 | (4,774,560) | 0.50 | |
| Balance, December 31, 2019 | 15,174,425 | 1.39 | |
| 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 | |

During the nine months ended September 30, 2020, the Company issued nil common shares for exercise of warrants for proceeds of $nil.

During the nine months ended September 30, 2019, the Company issued 3,571,305 common shares for exercise of warrants for proceeds of $964,652.50.

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 |

The weighted average exercise price and weighted average life are $0.349 and 2.23 year, respectively.

(Unaudited-Expressed in Canadian dollars)

## 14. FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 - Inputs for assets and liabilities that are not based on observable market data.

The fair value of cash, cash equivalents, trade receivables, accounts payable, accrued liabilities, and other current liabilities approximate fair value due to the short-term nature of the financial instruments. Discussions of risks associated with financial assets and liabilities are detailed below:

Credit risk

Credit risk is the measure of the credit worthiness of the borrow and the possibility of resulting loss which arises from cash held with banks and financial institutions and receivables. The maximum exposure to credit risk is equal to the carrying value of these financial assets. The Company’s cash is held with major Canadian and UK banks.

Currency and foreign exchange risk

Currency risk is the possibility of losing money due to unfavorable moves in exchange rates. A portion of the Company’s financial assets and liabilities are denominated in other currencies, mainly PLN and GBP. Cash is also generated in different currencies than required to meet costs. The Company monitors this exposure and plans the exchange of cash between currencies to utilise the best available rates in advance but has no hedge positions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they become due. The majority of the Company’s accounts payable and accrued liabilities are payable in less than ninety days. The Company prepares monthly forecasts and monitors expenditures to manage short-term liquidity. Due to the nature of the Company’s activities, funding for long-term liquidity needs is dependent on the Company’s ability to obtain additional financing through various means, including equity financing.

The following is an analysis of the contractual maturities of the Company’s financial liabilities as at September 30, 2020:

| | **Within 12 months** | **After 12 months** |
|---|---|---|
| | **$** | **$** |
| Accounts payable and accrued liabilities | 1,859,731 | - |
| Lease liability | 301,969 | 653,354 |
| Other liabilities | 224,952 | - |
| **Total** | 2,386,652 | 653,354 |

(Unaudited-Expressed in Canadian dollars)

## 15. CAPITAL MANAGEMENT

The Company defines its capital as shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the growth of the business and finance future expansion while maintaining strong creditor relationships and shareholder return. The Board of Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the year to date to September 3, 2020.

## 16. 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 | $ | 79,404 | 111,638 | $ | 1,658,463 | 355,035 |
| | $ | **381,821** | **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 | 15,941 |
| Consultant fees | $ | 17,204 | - | $ | 17,203 | - |
| Rent | $ | 51,610 | 44,719 | $ | 146,352 | 134,156 |
| | $ | **69,843** | **48,432** | $ | **172,800** | **150,097** |

## 17. SUBSEQUENT EVENTS

Effective August 19, 2020, Borganic, the Company's wholly owned subsidiary, terminated its Joint Venture agreement dated December 4, 2018 with Dragonfly Biosciences Limited ('Dragonfly').

The termination includes a claim for Dragonfly's share of the Joint Venture extraction facility. Proceedings issued in the English High Court have also been served by Borganic on Dragonfly and a director of Dragonfly and general manager of the Joint Venture company.

In the proceedings served by Borganic it seeks declarations from the English High Court that:

- Dragonfly has materially and persistently breached the Joint Venture agreement which constitutes a compulsory transfer event in favour of Borganic;
- The notice of termination and compulsory transfer event served by Dragonfly on August 3, 2020 is null and void; and
- Borganic retains ownership of the equipment it has financed at the Joint Venture extraction facility.

Borganic also claims damages against Dragonfly for the losses it has suffered as a result of Dragonfly's alleged breaches of the Joint Venture agreement