SATIVA WELLNESS GROUP INC.
(Formerly STILLCANNA INC.)

Consolidated Financial Statements
For the Years Ended July 31, 2020 and 2019

(Expressed in Canadian Dollars)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Sativa Wellness Group Inc. (formerly Stillcanna Inc.)

Opinion

We have audited the consolidated financial statements of Sativa Wellness Group Inc. (the "Company"), which comprise the consolidated statements of financial position as at July 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which describes events or conditions that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David J. Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

November 30, 2020

SATIVA WELLNESS GROUP INC. (formerly STILLCANNA INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at	Note	July 31, 2020	July 31, 2019
		$	$
ASSETS			
Current			
Cash and cash equivalents	3	5,752,888	15,580,243
Trade receivables		81,416	107,839
Refundable sales taxes receivable		257,588	212,142
Biological assets	6	—	538,729
Inventory	7	90,878	94,251
Prepaid expenses and deposits	8	30,470	120,115
Other current assets		15,573	101,693
		6,228,813	16,755,012
Non-current			
Plant and equipment	10	4,978,823	1,862,138
Right of use assets	11	166,098	—
Held-for-sale asset	12	473,521	—
Intangible assets	13	—	1,216,000
Goodwill	13	—	21,387,345
Investment in joint venture	9	—	2,712,196
Total Assets		11,847,255	43,932,691
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		798,574	635,005
Lease liabilities	14	102,561	51,474
Other current liabilities		133,319	85,587
		1,034,454	772,066
Non-current			
Deferred income tax liability	19	—	182,400
Lease liabilities	14	48,998	76,241
Total Liabilities		1,083,452	1,030,707
Shareholders' Equity			
Share capital	15	63,907,512	62,479,344
Reserves		3,050,693	2,634,741
Obligation to issue shares	15	—	16,250
Equity portion of convertible debt		1,336	1,336
Translation reserve		(484,409)	(116,090)
Deficit		(55,711,329)	(22,113,597)
Shareholders' Equity		10,763,803	42,901,984
Total Liabilities and Shareholders' Equity		11,847,255	43,932,691

Nature of operations and going concern (note 1)
Subsequent events (note 21)

Approved and authorized for dissemination on behalf of the Board of Directors on November 30, 2020:

"Jason Dussault"
Jason Dussault - Director

"Joseph Colliver"
Joseph Colliver - Director

The accompanying notes are an integral part of these Consolidated Financial Statements.

SATIVA WELLNESS GROUP INC. (formerly STILLCANNA INC.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

For the Years Ended July 31,	**2020**	**2019**
	$	**$**
Revenue (Notes 5 and 20)	**471,978**	88,814
Cost of sales related to inventory production	**456,414**	28,581
Gross profit (loss) before change in fair value of biological assets	**15,564**	60,233
Unrealized gain (loss) on changes in fair value of biological assets	**(36,820)**	36,820
Gross profit (loss)	**(21,256)**	97,053
Expenses		
Administrative and office	**601,763**	186,837
Amortization (Notes 10, 11 and 13)	**575,760**	113,242
Advertising	**550,872**	3,069,369
Consulting (Notes 4, 5 and 18)	**1,757,600**	5,913,690
Insurance	**113,177**	30,250
Professional fees	**836,828**	458,766
Research and development	**795,197**	—
Share-based payments (Notes 15 and 18)	**415,952**	1,681,866
Travel	**254,810**	294,054
Wages and salaries (Note 18)	**968,302**	40,198
	(6,891,517)	(11,691,219)
Other items		
Finance income	**259,673**	47,716
Foreign exchange (loss)/gain	**(103,523)**	5,132
Loss on sale of equipment	**(159,483)**	—
Loss on acquisition of subsidiary (Note 4)	**—**	(8,873,354)
Loss on investment in joint venture (Note 9)	**(141,029)**	(78,841)
Impairment of inventories (Note 7)	**(901,427)**	—
Impairment of plant and equipment (Note 10)	**(289,948)**	—
Impairment of investment in joint venture (Note 9)	**(3,709,024)**	—
Impairment of held-for-sale asset (Note 12)	**(38,171)**	—
Impairment of goodwill (Note 13)	**(20,815,518)**	—
Impairment of intangible assets (Note 13)	**(990,165)**	—
Loss before income tax	**(33,780,132)**	(20,590,566)
Income tax recovery (Note 19)	**182,400**	9,600
Net loss	**(33,597,732)**	(20,580,966)
Other comprehensive loss		
Currency translation adjustment	**(368,319)**	(116,090)
Net loss and comprehensive loss	**(33,966,051)**	(20,697,056)
Basic and diluted loss per common share	**(0.31)**	(0.38)
Weighted average number of common shares outstanding	**110,420,152**	54,787,751

The accompanying notes are an integral part of these Consolidated Financial Statements

SATIVA WELLNESS GROUP INC. (formerly STILLCANNA INC.)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Number of Shares	**Share Capital**	**Reserve**	**Equity portion of Convertible Debenture**	**Obligation to Issue Shares**	**Translation reserve**	**Deficit**	**Total**
		$	**$**	**$**	**$**	**$**	**$**	**$**
Balance, July 31, 2018	**22,558,000**	**1,321,783**	**276,589**	**1,336**	**—**	**—**	**(1,532,631)**	**67,077**
Units issued for cash	37,187,587	28,365,725	—	—	—	—	—	28,365,725
Share issuance costs	—	(2,732,850)	786,269	—	—	—	—	(1,946,581)
Acquisition of subsidiary	44,800,000	34,721,600	—	—	—	—	—	34,721,600
Exercise of warrants	2,948,805	677,686	(47,283)	—	16,250	—	—	646,653
Exercise of options	330,000	125,400	(62,700)	—	—	—	—	62,700
Fair value of stock options granted	—	—	1,681,866	—	—	—	—	1,681,866
Currency translation adjustment	—	—	—	—	—	(116,090)	—	(116,090)
Net loss	—	—	—	—	—		(20,580,966)	(20,580,966)
Balance, July 31, 2019	**107,824,392**	**62,479,344**	**2,634,741**	**1,336**	**16,250**	**(116,090)**	**(22,113,597)**	**42,901,984**
Exercise of warrants	3,050,355	1,428,168	—	—	(16,250)	—	—	1,411,918
Share-based payments	—	—	415,952	—	—	—	—	415,952
Currency translation adjustment	—	—	—	—	—	(368,319)	—	(368,319)
Net loss	—	—	—	—	—	—	(33,597,732)	(33,597,732)
Balance, July 31, 2020	**110,874,747**	**63,907,512**	**3,050,693**	**1,336**	**—**	**(484,409)**	**(55,711,329)**	**10,763,803**

The accompanying notes are an integral part of these Consolidated Financial Statements

SATIVA WELLNESS GROUP INC. (formerly STILLCANNA INC.)
Consolidated Statements of Cash Flows
For the Years Ended July 31, 2020 and 2019
(Expressed in Canadian dollars)

	2020	2019
	$	$
Cash flows from operating activities		
Loss before income tax	(33,780,132)	(20,590,566)
Adjustments for non-cash items:		
Finders and consulting fees paid	—	4,694,000
Loss on foreign exchange	241,620	—
Impairments	26,744,253	—
Interest expense	12,001	—
Loss on disposition of plant and equipment	159,483	—
Loss on investment in joint venture	141,029	78,841
Loss on acquisition of subsidiary	—	8,873,354
Share based payments	415,952	1,681,866
Amortization	744,580	113,242
Changes in non-cash working capital items:		
Trade receivables	26,423	2,039
Refundable sales tax receivable	(45,446)	(207,849)
Prepaid expenses and deposits	89,645	185,164
Accounts payable and accrued liabilities	163,569	(638,896)
Other current liabilities	47,732	(17,322)
Inventory	(322,721)	104,990
Biological asset additions	(36,604)	(538,729)
Other current assets	86,120	(110,384)
Cash used in operating activities	(5,312,496)	(6,370,250)
Cash flows from investing activities		
Investment in plant and equipment	(5,255,299)	(1,386,201)
Proceeds from disposition of equipment	577,543	—
Cash received on acquisition of subsidiary	—	54,965
Investment in Premium Extraction	(1,137,857)	(2,209,119)
Leasehold improvements	—	(25,866)
Acquisition of Olimax	—	(2,000,000)
Cash received on acquisition of Olimax	—	290,642
Cash used in investing activities	(5,815,613)	(5,275,579)
Cash flows from financing activities		
Exercise of warrants	1,411,918	630,403
Exercise of options	—	62,700
Obligation to issue shares	—	16,250
Repayment of lease liability	(111,164)	—
Units issued for cash, net of issuance costs	—	26,419,144
Cash provided by financing activities	1,300,754	27,128,497
Net increase in cash	(9,827,355)	15,482,668
Cash and cash equivalents, beginning	15,580,243	97,575
Cash and cash equivalents, ending	5,752,888	15,580,243
Non-cash investing and financing transactions:		
Shares issued for asset acquisition	—	9,450,000
Shares issued for business combination	—	20,577,600

The accompanying notes are an integral part of these Consolidated Financial Statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Sativa Wellness Group Inc. (formerly StillCanna 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 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 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 21).

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.

<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 further losses in the development of its business, all of which indicate the existence of a material uncertainty that casts significant 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. 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. 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.

<u>COVID-19</u>

The recent outbreak of the coronavirus, also 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.

(Expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS (Continued)

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 United States 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 2021.

2. BASIS OF PRESENTATION

Basis of presentation and statement of compliance

These financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

These consolidated financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Statement of Compliance and Principles 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	
		July 31, 2020	July 31, 2019
Borganic	Romania	100%	100%
Olimax	Poland	100%	100%
Olimax RE	Poland	100%	—

All intercompany transactions and balances have been eliminated on consolidation.

2. BASIS OF PRESENTATION (Continued)

Use of estimates and judgements

The preparation of these 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) Biological assets

In calculating the value of biological assets, the Company's management is required to make a number of estimates including the following:

- The stage of growth of industrial hemp compared to point of harvest;
- Yield of saleable flower produced at harvest date; and
- Concentration of cannabidiol ("CBD") at harvest date.

(b) Inventory

Inventory is valued at the lower of cost and net realizable value. Net realizable value is determined with reference to the estimated selling price. The Company estimates selling price based upon assumptions about future demand and current and anticipated retail market conditions.

(c) 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.

(d) 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.

(e) 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; and
- expected option life.

2. BASIS OF PRESENTATION (Continued)

(f) Other significant judgments

The preparation of these financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the fair value and classification of financial instruments;
- the classification of leases as either operating or finance type leases;
- the determination of the functional currency of the Company and its subsidiary; and
- whether there are indicators of impairment of the Company's long-lived assets.

Prior year comparative figures

Prior year bank charges, interest and accretion, listing fees and filing and transfer agent fees totalling $80,313 were reclassified into administrative and office expense to be consistent with the current year presentation.

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) Investment in Joint Venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

Under the equity method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of comprehensive income less distributions of the joint venture.

The Company's share of its joint venture's post-acquisition profits or losses is recognized in the statement of net income, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an investee reduce the carrying amount of the investment.

If the Company's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Company does not provide for additional losses, unless it has incurred obligations or made payments on behalf of the joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Plant and Equipment

Plant and equipment is measured at cost, net of accumulated depreciation and any impairment losses. 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 and depreciation of the asset commences at that point.

(d) Biological assets

The Company's biological assets consist of hemp plants. The Company capitalizes all the direct and indirect costs as incurred related to the biological transformation of the biological assets between the point of initial recognition and the point of harvest on an average cost basis. The Company then measures the biological assets at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest. The net unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the statements of loss of the related reporting year.

(e) Inventory

Inventory consists of hemp seeds and cannabinoid oil and supplies that are carried at the lower of cost or net realizable value. Supplies are carried at the lower of cost and replacement cost. Inventory of harvested hemp and hemp seeds are transferred from biological assets at their fair value less costs to sell at harvest which becomes the deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that the cost is less than 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) 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 capitalized development costs, 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 impairment 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 years.

(g) Goodwill

Goodwill is only recognized as part of business combinations and is made up of intangible assets with indefinite useful lives that cannot be identified separately. 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.

(h) 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.

(i) 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	$ 1,584,813	$ 5,545,694
Guaranteed investment certificate	4,168,075	10,034,549
	$ 5,752,888	$ 15,580,243

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) 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.

(k) 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 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.

(l) 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, the subsidiaries that have operations in Poland, is the Polish Zloty. The functional currency of Borganic is the Canadian dollar.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Foreign currency translation (Continued)

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.

(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.

(n) Revenue recognition

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15").

The IFRS 15 model contains the following five-step contract-based analysis of transactions guiding revenue recognition:

- identify the contract with a customer;
- identify the performance obligation(s) in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligation(s) in the contract; and
- recognize revenue when or as the Company satisfies the performance obligation(s).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Revenue recognition (Continued)

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.

Under IFRS 15, revenue from the sale of hemp, and hemp related products is recognized at a point in time when control over the goods has been transferred to the customer. The Company transfers control and satisfies its performance obligation upon delivery and acceptance by the customer. The Company recognizes revenue in the amount that the Company expects to receive after taking into account any variation that may result from rights of return.

Provisions for warranties and product liability are recognized when the Company has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

(o) Income taxes

The Company follows the deferred tax method of accounting for income taxes. Under this method of tax allocation, deferred tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Deferred tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantively enacted. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Offsetting of deferred tax assets and liabilities occurs when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(p) 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

<u>Non-derivative financial assets</u>

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

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.

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.

Derivative instruments

Derivative instruments, including embedded derivatives in executory contracts or financial liability contracts, are classified as at FVTPL and, accordingly, are recorded in the statement of financial position at fair value. Unrealized gains and losses on derivatives not designated in a hedging relationship are recorded as part of other operating income (expense) or non-operating income (expense) in profit depending on the nature of the derivative. Fair values for derivative instruments are determined using inputs based on market conditions existing at the balance sheet date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract. Accounts receivable related to provisionally priced sales are measured at fair value with changes recognized in the statement of loss and comprehensive loss as a component of revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Financial instruments (Continued)

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.

(q) New accounting standards and interpretations

The following standard was adopted August 1, 2019:

IFRS 16 – Leases

On August 1, 2019, the Company adopted IFRS 16 which replaced IAS 17 "Leases" and related interpretations, using the modified retrospective method which does not require restatement of prior period financial information. Accordingly, comparative information in the Company's financial statements is not restated. The new standard introduces 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.

On transition to IFRS 16, the Company elected to use the following practical expedients, as permitted under the standard:

- Grandfather the assessment of which transactions are leases and apply IFRS 16 only to contracts that were previously identified as leases under IAS 17;
- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;

The lease payments associated with these short-term leases are recognized as an expense on a straight-line basis over the lease term.

(Expressed in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) New accounting standards and interpretations (Continued)

The following table summarizes the impacts of adopting IFRS 16 on the consolidated financial statements:

	Balance July 31, 2019	**Adoption of IFRS 16**	**Reclass**	**Restated Balance August 1, 2019**
	$	$	$	$
Plant and equipment	1,862,138	—	(163,971)	1,698,167
Right of use assets	—	—	163,971	163,971
Building	—	54,934	—	54,934
Current portion of lease obligation	(51,474)	(24,865)	—	(76,339)
Lease obligation	(76,241)	(30,069)	—	(106,310)

On adoption of IFRS 16, the Company has elected to reclassify amounts relating to leased assets that were historically considered finance leases under IAS 17 from plant and equipment to right of use assets on the statement of financial position. The reclassification is comprised of the following balances:

As at August 1, 2019	**Cost**	**Accumulated Depreciation**	**Carrying Value**
Transportation equipment	$ 158,032	$ (15,616)	$ 142,416
Leasehold improvements	25,866	(4,311)	21,555
Total	$ 183,898	$ (19,927)	$ 163,971

Update to Significant Accounting Policies

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.

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.

(Expressed in Canadian dollars)

4. ASSET ACQUISITION

Acquisition of Borganic

In connection with the Transaction, the Company issued 15,000,000 common shares with a fair value of $9,450,000.

At the Transaction date, the Company determined that Borganic did not constitute a business as defined under IFRS 3, Business Combinations, and the Transaction was accounted for as an asset acquisition. There were no intangible assets identified that met the recognition criteria under IFRS; therefore. the excess of the consideration paid over the fair value of the monetary assets and liabilities assumed was expensed.

The details of the consideration paid and the assets and liabilities of Borganic is as follows:

Consideration paid:	$
Fair value of shares issued (15,000,000 at $0.63 per shares)	9,450,000
Less: Value of net assets acquired	
Cash	54,965
Investment in Premium Extractions Services	1,622,982
Accounts payable/accruals	(25,358)
Note payable	(1,026,255)
Due to related party	(49,688)
Net assets acquired	**576,646**
Other consideration paid:	
Finders' fees	1,134,000
Advisory fees	1,260,000
Loss on acquisition	**11,267,354**

Per financial statements	$
Loss on acquisition	8,873,354
Finders' fee included in consulting expense	1,134,000
Advisory fees included in consulting expense	1,260,000
	11,267,354

The Company granted 1,800,000 common shares as a finder's fee for a fair value of $1,134,000 and 2,000,000 common shares as an advisory fee with a fair value of $1,260,000.

5. BUSINESS COMBINATION

Acquisition of Olimax

On May 7, 2019, the Company acquire all of the shares of Olimax, a privately held Polish company involved in hemp production and manufacturing and selling cannabidiols oils, in exchange for $2,000,000 and the issuance of 24,000,000 common shares.

At the time of the acquisition, the Company determined that Olimax constituted a business as defined under IFRS 3, Business Combinations, and accounted for it as such. The Company has recognized the identifiable assets and liabilities acquired at their estimated acquisition date fair values.

During the year ended July 31, 2019, management finalized the purchase price allocation of Olimax based on the Company's estimated fair value of assets acquired and liabilities assumed at the acquisition date:

(Expressed in Canadian dollars)

5. BUSINESS COMBINATION (Continued)

Consideration paid:		
Cash	$	2,000,000
Common shares issued (3,936,000 @ $1.15)		4,526,400
Restricted commons shares issued (20,064,000 @ $0.80)		16,051,200
Total consideration paid	$	**22,577,600**
Less: Value of net assets acquired		
Assets		
Cash	$	290,642
Accounts receivable		109,878
Inventories		199,241
Plant and equipment		377,248
Assets under finance lease		162,023
Deposits on equipment		305,279
Other assets		144,834
Customer relationships		450,000
Brand, licenses and channels		830,000
Goodwill		21,387,345
Total assets	$	**24,256,490**
Liabilities		
Accounts payable	$	(247,279)
Other payables		(102,626)
Loans		(992,094)
Deferred tax liability		(192,000)
Lease liability		(144,891)
Total liabilities	$	**(1,678,890)**
Net assets acquired	$	**22,577,600**

The restricted common shares value was estimated using a commonly used option model that estimates the discount related to the lack of marketability of the shares from the contractual restriction.

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 1,300,000 common shares as a finder's fee with a fair value of $1,495,000 and 700,000 common shares as an advisory fee with a fair value of $805,000.

(Expressed in Canadian dollars)

6. BIOLOGICAL ASSETS

The Company defines biological assets as hemp plants up to the point of harvest. Biological assets are measured at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in kilograms for plants currently being cultivated and then adjusts the amount by the expected selling costs per kilogram ("Kg").

The following significant unobservable inputs were used by management as part of the fair value model:

- Estimated selling price per Kg – with no previous sales history, Company's management evaluated industry data and expects to closely approximate the expected selling price.
- Stage of growth – the Company applied a weighted average number of days out of the 120-day growing cycle that biological assets have reached as of the measurement date based on historical evidence. The Company assigns fair value on a straight-line basis according the stage of growth and estimated costs to complete cultivation.
- Plant yield – represented by the expected number of Kg of finished hemp flower and content of cannabidiol as a percentage of weight to be obtained from each harvested hemp plant based on historical evidence.

Other unobservable inputs include: Estimated post-harvest costs, costs to complete and wastage.

All inputs noted above are classified as level three on the fair value hierarchy.

The following table quantifies each significant unobservable input and provides the impact of a 20% increase or decrease that each input would have on the fair value of biological assets:

	July 31, 2020	July 31, 2019	Impact of 20% change – July 31, 2020	Impact of 20% change – July 31, 2019
Estimated selling price per Kg	—	$5	—	$149,265
Estimated stage of growth	—	37%	—	$107,745
Estimated flower yield per hectare (Kg)	—	330	—	$107,745

The changes in the carrying value of biological assets during the period are as follows:

		July 31, 2020		July 31, 2019
Balance, opening	**$**	**538,729**	$	—
Production costs capitalized (Note 10)		**983,595**		501,909
Change in fair value less cost to sell		**(36,820)**		36,820
Loss on fair value measurement at harvest		**(910,171)**		—
Transferred to inventory upon harvest		**(575,333)**		—
Balance, ending	**$**	**—**	$	538,729

7. INVENTORY

		July 31, 2020		July 31, 2019
Hemp products, raw materials	**$**	**90,878**	$	94,251

During the year ended July 31, 2020, the Company tested inventory for impairment and wrote down the hemp inventory to its net realizable value, which resulted in an impairment loss of $901,427 (2019 - $nil).

(Expressed in Canadian dollars)

8. PREPAID EXPENSES

	July 31, 2020	July 31, 2019
Deposits on land leases	**$ —**	$ 82,463
Deposit on office lease	**9,860**	3,698
Prepaid rent	**5,718**	—
Marketing and consulting services	**—**	25,988
Other prepaid expenditures	**14,892**	7,966
	$ 30,470	$ 120,115

9. INVESTMENT IN JOINT VENTURE

The Company has a 49% interest in a joint venture, Premium Extraction Services Ltd. ("Premium"). Premium is focused on the extraction and distillation of CBD oils from hemp. The determination of Premium as a joint venture was based on Premium's structure through a separate legal entity whereby neither the legal form nor the contractual arrangement gives the owners' rights to the assets and obligations for the liabilities within the normal course of business, nor does it give the rights to the economic benefits of the assets or responsibilities for settling liabilities associated with the arrangement.

Summarized statement of comprehensive loss for investment in joint venture under equity accounting:

Year Ended:	**July 31, 2020**	**July 31, 2019**
	$	**$**
Revenues	**—**	—
Expenses		
General and administration	**270,826**	159,906
Other items		
Foreign exchange loss	**16,988**	994
Net loss	**(287,814)**	(160,900)
Share of equity investment	**49%**	49%
Company's share of net loss	**(141,029)**	(78,841)

The summary of the Company's investment in joint venture is as follows:

	July 31, 2020	July 31, 2019
	$	$
Balance, beginning	**2,712,196**	—
Additions from asset acquisition	**—**	1,622,982
Contributions made to the joint venture	**1,137,857**	1,168,055
Loss on investment in joint venture	**(141,029)**	(78,841)
Impairment of Investment	**(3,709,024)**	—
Balance, ending	**—**	2,712,196

During the year-ended July 31, 2020, the Company assessed the investment for indicators of impairment. The Company has experienced significant delays in the start of operations and in being able to generate income from the investment in order to recover the investment amount. The Company is also currently engaged in legal proceedings with the joint-venture partner that will further delay the start of operations. The Company fully impaired the investment. (Note 21)

(Expressed in Canadian dollars)

10. PLANT AND EQUIPMENT

	Plant and equipment	Transportation equipment	Leasehold improvements	Assets under construction	Other tangible assets	Total
Cost:	**$**	**$**	**$**	**$**	**$**	**$**
Balance, August 1, 2018	—	—	—	—	—	—
Additions	439,556	—	25,866	862,799	42,940	1,371,161
Additions from the business combination (Note 5)	339,761	195,224	—	3,415	871	539,271
Balance July 31, 2019	779,317	195,224	25,866	866,214	43,811	1,910,432
Additions	1,256,534	780,279	—	2,812,676	6,124	4,855,613
Dispositions	(246,781)	(615,420)	—	—	—	(862,201)
Adjustment to right of use assets	—	(158,032)	(25,866)	—	—	(183,898)
Adjustment to held for sale	—	—	—	(511,692)	—	(511,692)
Exchange adjustments	105,454	34,911	—	256,870	2,451	399,686
Balance, July 31, 2020	1,894,524	236,962	—	3,424,068	52,386	5,607,940
Accumulated depreciation and impairment:						
Balance, August 1, 2018	—	—	—	—	—	—
Depreciation	28,196	15,732	4,311	—	1,003	49,242
Exchange adjustments	(593)	(332)	—	—	(23)	(948)
Balance, July 31, 2019	27,603	15,400	4,311	—	980	48,294
Depreciation	304,190	117,844	—	—	13,943	435,977
Dispositions	(36,846)	(88,329)	—	—	—	(125,175)
Impairment	243,238	46,710	—	—	—	289,948
Adjustment to right of use assets	—	(15,616)	(4,311)	—	—	(19,927)
Balance, July 31, 2020	538,185	76,009	—	—	14,923	629,117
Net book value, July 31, 2019	751,714	179,824	21,555	866,214	42,831	1,862,138
Net book value, July 31, 2020	**1,356,339**	**160,953**	**—**	**3,424,068**	**37,463**	**4,978,823**

(Expressed in Canadian dollars)

10. PLANT AND EQUIPMENT (Continued)

During the year ended July 31, 2020, the Company disposed equipment for proceeds of $577,543 (2019 – $nil) and recorded loss on disposal of $159,483 (2019 – $nil). Depreciation expense of $168,820 was capitalized to biological assets (Note 6) during the year ended July 31, 2020 (2019 – $nil).

11. RIGHT OF USE ASSETS

	Transportation Equipment	Leasehold Improvements	Building	Total
Cost:	$	$	$	$
Balance, July 31, 2019	—	—	—	—
Adoption of IFRS 16	158,032	25,866	54,934	238,832
Additions	—	—	63,796	63,796
Balance, July 31, 2020	158,032	25,866	118,730	302,628
Accumulated depreciation:				
Balance, July 31, 2019	—	—	—	—
Adoption of IFRS 16	15,616	4,311	—	19,927
Depreciation	58,678	6,335	51,590	116,603
Balance, July 31, 2020	74,294	10,646	51,590	136,530
Net book value, July 31, 2020	83,738	15,220	67,140	166,098

12. ASSETS HELD FOR SALE

	Total
Cost:	$
Balance, July 31, 2019	—
Assets transferred from Plant and Equipment	511,692
Impairment	(38,171)
Balance, July 31, 2020	$ 473,521

As at July 31, 2020 the Company had excess 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.

(Expressed in Canadian dollars)

13. INTANGIBLE ASSETS AND GOODWILL

	Customer Relationships	Brands	Goodwill	Total
Cost:	$	$	$	$
Balance, August 1, 2018	—	—	—	—
Additions from the business combination (Note 5)	450,000	830,000	21,387,345	22,667,345
Balance, July 31, 2019	450,000	830,000	21,387,345	22,667,345
Adjustment from the business combination (Note 5)	—	—	(6,475)	(6,475)
Impairment	(438,105)	(808,060)	(20,815,518)	(22,061,683)
Exchange adjustments	(11,895)	(21,940)	(565,352)	(599,187)
Balance, July 31, 2020	—	—	—	—
Accumulated depreciation:				
Balance, August 1, 2018	—	—	—	—
Depreciation	22,500	41,500	—	64,000
Balance, July 31, 2019	22,500	41,500	—	64,000
Depreciation	67,500	124,500	—	192,000
Impairment	(90,000)	(166,000)	—	(256,000)
Balance, July 31, 2020	—	—	—	—
Net book value, July 31, 2019	427,500	788,500	21,387,345	22,603,345
Net book value, July 31, 2020	—	—	—_	—

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 year ended July 31, 2020, the Company performed its impairment test on goodwill and intangible assets using the fair value less costs to sell approach. Results of tests performed saw the Company record an impairment charge of $990,165 on intangible assets (2019 - $nil) and $20,815,518 on goodwill (2019 - $nil).

14. LEASE OBLIGATIONS

	July 31, 2020	July 31, 2019
Gross lease liabilities – minimum lease payments:	$	$
No later than 1 year	108,328	55,293
Later than 1 year and no later than 5 years	50,185	79,219
	158,513	134,512
Future interest charges on lease liabilities	(6,954)	(6,797)
Present value of lease liability	151,559	127,715
Current	102,561	51,474
Non-current	48,998	76,241

(Expressed in Canadian dollars)

15. SHARE CAPITAL

Authorized:

unlimited common shares without par value

unlimited preferred shares without par value

Issued and Outstanding:

On October 10, 2018, the Company closed a private placement for proceeds of $4,000,000 and issued 16,000,000 units at a price of $0.25 per unit. Each unit consists of one common share and one-half warrant. Each warrant is exercisable into one common share at a price of $0.50 per share for 1 year. In connection with the private placement, the Company paid cash finders' fees of $87,900 and 421,200 finder's warrants with a fair value of $252,720. Each warrant is exercisable into one common share at $0.50 until October 10, 2019. Finders' fees were valued using the Black-Scholes Option Pricing Model using the following input assumptions:

Risk-free interest rate	2.09%
Estimated life	1 year
Expected volatility	332%
Expected dividend yield	0%

On March 14, 2019, the Company acquired all of the issued and outstanding shares of Borganic in exchange for 15,000,000 common shares of the Company. 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.

On May 7, 2019, the Company issued 24,000,000 common shares as partial consideration for the purchase of Olimax. The shares are subject to a lock-up agreement whereby they are released 1/12 every three months over 3 years. 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 May 7, 2019, the Company closed a private placement for proceeds of $24,365,000 and issued 21,187,587 units at a price of $1.15 per unit. Each unit consists of one common share and one-half warrant. Each warrant is exercisable into one common share at a price of $1.73 per share for 1 year. In connection with the private placement, the Company paid a commission equal to 7.0% of the gross proceeds of the offering and issued warrants to acquire that number of Units which is equal to 7.0% of the aggregate number of subscription receipts sold under the offering. Each compensation warrant is exercisable at the issue price for a period of 12-months following the date the escrow release conditions are satisfied. The agent also received an advisory fee of $384,629 and 333,410 advisory warrants in connection with the offering. Each advisory warrant is exercisable at the issue price for a period of 12-months following the date the escrow release conditions are satisfied. Finders' fees were valued using the Black-Scholes Option Pricing Model using the following input assumptions:

Risk-free interest rate	1.82%
Estimated life	1 year
Expected volatility	83%
Expected dividend yield	0%

(Expressed in Canadian dollars)

15. SHARE CAPITAL (Continued)

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, consultants and other key employees of the Company with incentive share options at the discretion of the Board. Under the Fixed Option Plan, the number of Common Shares which will be reserved for issuance, including any options currently outstanding which were granted under the Company's 10% rolling Option Plan will not exceed 11,087,475 Common Shares as of the date of this report. 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 July 31, 2018	1,015,000	$0.19
Granted, August 2, 2018	100,000	$0.19
Granted, October 15, 2018	1,050,000	$0.63
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
Balance, July 31, 2019 and July 31, 2020	3,635,000	$0.83

During the year ended July 31, 2020, the Company recorded share-based payments of $415,952 (2019 - $218,500) relating to options vesting.

During the year ended July 31, 2019, the Company issued 330,000 common shares resulting from exercise of stock options for total proceeds of $62,700.

Share purchase warrants:

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

	Warrants Outstanding	Weighted Average Exercise Price
Balance, July 31, 2018	5,450,000	$ 0.10
Issued, October 10, 2018	8,421,200	$0.50
Issued, May 7, 2019	12,076,925	$1.73
Exercised	(2,110,000)	$0.10
Exercised	(838,805)	$0.50
Balance, July 31, 2019	22,999,320	$1.09
Exercised	(3,050,335)	$0.47
Expired, October 10, 2019	(4,774,560)	$0.50
Expired, May 7, 2020	(12,076,925)	$1.66
Balance, July 31, 2020	3,097,500	$0.10

15. SHARE CAPITAL (Continued)

During the year ended July 31, 2020, the Company issued 3,050,335 common shares for exercise of warrants for proceeds of $1,428,168, of which $16,250 was received in the prior fiscal period.

During the year ended July 31, 2019, the Company issued 2,948,805 common shares for exercise of warrants for proceeds of $630,403.

As of July 31, 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

The weighted average exercise price and weighted average life are $0.10 and 2.45 year, respectively.

16. 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 and cash equivalents, trade receivables, accounts payable and 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:

<u>Credit risk</u>

Credit risk 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 primarily held with a major Canadian bank.

<u>Currency risk</u>

A portion of the Company’s financial assets and liabilities are denominated in US dollars. The Company monitors this exposure but has no hedge positions.

<u>Liquidity risk</u>

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 annual budgets 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.

(Expressed in Canadian dollars)

16. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

The following is an analysis of the contractual maturities of the Company's financial liabilities as at July 31, 2020:

	Within 12 months	After 12 months
Accounts payable and accrued liabilities	$ 798,574	$ —
Lease liability	102,561	48,998
Other liabilities	133,319	—
Total	$ 1,034,454	$ 48,998

17. 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 ended July 31, 2020.

18. RELATED PARTY TRANSACTIONS

The remuneration of directors and key management personnel during the year ended July 31, 2020 and 2019 was as follows:

	2020	2019
Consulting fees to Directors and key management personnel	$ 354,003	$ 326,459
Salaries to key management personnel	287,000	—
Share-based compensation to directors	150,205	758,604
	$ 791,208	$ 1,085,063

19. INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	July 31, 2020	July 31, 2019
Loss for the year	$ (33,780,132)	$ (20,590,566)
Statutory income tax rate	27%	27%
Expected income tax recovery at statutory income tax rates	(9,121,000)	(5,559,000)
Permanent differences	7,128,000	4,136,000
Adjustment to prior years provision versus return	(681,000)	(80,000)
Origination and reversal of temporary differences	266,600	(388,000)
Change in valuation allowance	2,225,000	1,881,400
Income tax recovery	$ (182,400)	$ (9,600)

(Expressed in Canadian dollars)

19. INCOME TAX (Continued)

Temporary differences that give rise to the following deferred tax assets and liabilities are:

	July 31, 2020	July 31, 2019
Share issuance costs	420,000	$ 526,000
Non-capital losses	3,930,000	1,538,000
Mineral property interests	140,000	140,000
Other	(61,000)	—
	4,429,000	2,204,000
Valuation allowance	(4,429,000)	(2,198,000)
Deferred tax assets	—	6,000
Deferred tax liabilities		
Intangible assets	—	(182,400)
Plant and equipment	—	(6,000)
Net deferred tax liability	—	$ (182,400)

As at July 31, 2020, the Company has approximately $16,000,000 (2019 - $5,635,000) of non-capital losses in Canada that may be used to offset future taxable income, expiring between 2031 and 2040.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

20. GEOGRAPHICAL INFORMATION

Geographical information relating to the Company's activities is as follows:

	Revenue Year ended July 31, 2020	2019
Europe	$ 471,978	$ 88,814
Canada	—	—
	$ 471,978	$ 88,814

	Long-Term Assets Year ended July 31, 2020	2019
Europe	$ 5,536,082	$ 1,840,583
Canada	82,360	21,555
	$ 5,618,442	$ 1,862,138

(1) Includes: Plant and equipment, right of use assets and held-for-sale assets

21. SUBSEQUENT EVENTS

On September 24, 2020, the Company acquired all of the issued and outstanding shares of Sativa through a share exchange at a ratio of approximately 0.33507 common shares of the Company for one common share of Sativa.

The transaction resulted in the shareholders of Sativa acquiring control of the Company. Therefore, the transaction constitutes a reverse take-over and has been accounted for with Sativa being identified as the acquirer and the net assets of the Company being recorded at fair value at the date of the transaction. Consequently, the historical results are those of Sativa. Following Closing of the Acquisition, the holders of the Company's Shares hold approximately 37% of the common shares and the holders of Sativa's shares hold approximately 63% of the common shares.

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 Ms Radostina Draganova-Nikolova, 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.