SATIVA WELLNESS GROUP INC. (FORMERLY STILLCANNA INC.)

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF
OPERATIONS FOR THE YEAR ENDED JULY 31, 2020

FORM 51-102F1

DATE AND SUBJECT OF REPORT

The following Management Discussion & Analysis ("**MD&A**") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of SATIVA WELLNESS GROUP INC. (hereinafter "**SWEL**" or the "**Company**") for the year ended July 31, 2020.

This MD&A has been prepared with an effective date of November 30, 2020 and should be read in conjunction with the Company's July 31, 2020 audited consolidated financial statements and audited consolidated financial statements for the year ended July 31, 2019 as filed on SEDAR.

SCOPE OF ANALYSIS

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

FORWARD LOOKING STATEMENTS

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

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

It is the Company's policy that all forward-looking statements are based on the Company's beliefs and assumptions which are based on information available at the time these assumptions are made. The forward-looking statements contained herein are made as of July 31, 2020 and are subject to change after this date, and the Company assumes no obligation to publicly update or revise the statements to reflect new events or circumstances, except as may be required pursuant to applicable laws. Although management believes that the expectations represented by such forward-looking information or statements are reasonable, there is significant risk that the forward-looking information or statements may not be achieved, and the underlying assumptions thereto will not prove to be accurate.

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

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

GENERAL BUSINESS AND DEVELOPMENT

Sativa Wellness Inc. is a publicly traded corporation incorporated in Canada with its head office located at 503 – 905 W. Pender St., Vancouver, BC V6C 1L6. The Company's common shares are traded on the Canadian Securities Exchange ("**CSE**") under the trading symbol "SWEL".

Sativa Wellness Inc. is a fully integrated seed to Cannabidiol ("**CBD**") company with significant extraction and cultivation experience gained through the acquisition of Borganic Consulting Inc. ("**Borganic**") and Olimax NT Sp .Z.O.O ("**Olimax**") during the fiscal year ended July 31, 2019. The Company is uniquely positioned in the European Union with operations in Poland and Romania. The main focus of the Company is the production of large quantities of CBD isolate and CBD distillate to serve the wholesale marketplace emerging around the world.

Borganic Consulting Inc.

On February 26, 2019, the Company acquired 100% of the issued and outstanding shares of Borganic Consulting Inc. in exchange for 15,000,000 common shares of the Company with a fair value of $9,450,000 (the "Borganic Acquisition").

Upon completion of the Borganic Acquisition, the Company transitioned from a mining issuer to an early-stage life sciences company that plans to carry out the business of extracting CBD oils and crystals from hemp. Effective March 14, 2019 the Company changed its name to Stillcanna Inc. and began trading under the symbol STIL on the CSE.

Olimax NT Sp .Z.O.O

On May 7, 2019, the Company announced the execution of a share purchase agreement with Olimax NT Sp .Z.O.O, a licensed producer of cannabidiol in Poland, to acquire 100% of the issued and outstanding shares of Olimax for consideration of 24,000,000 common shares of the Company and $2,000,000 cash consideration.

Sativa Group PLC

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

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

BUSINESS UPDATE AND OUTLOOK

Sativa Group PLC

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

Sativa Wellness Group Inc. (Formally Stillcanna Inc.)

The Company is focused on the manufacturing and bulk supply of CBD-based products for the European marketplace. The Company manufactures both bulk CBD Isolate and THC-free distillate using its in-house engineered closed-loop ethanol extraction system. The Company believes that its manufacturing and extraction systems enable it to produce products at competitive prices.

Sativa Wellness Group Inc. – A Vertically Integrated Company

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

COVID-19

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

B2B Website

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

Extraction Initiatives

Over the past year the Company has been focused on the completion of two large extraction facilities based in Europe. Its initial facility based in Romania is a joint venture with another company, Dragonfly Biosciences Limited of the UK. The facility's construction is complete and in February 2020 Sativa Wellness Group Inc. obtained its final operational permits for the facility. The joint venture signed a 9-year lease with an option to purchase the approximately 12,000 square foot building in Bailesti, Romania close to the Bulgarian border.

The main building of approximately 10,000 square feet previously housed a textile manufacturer. The Company re-purposed the building and built the extraction facility to EU GMP standards. The Company had hoped to begin production in Romania in March of 2020 but due to the global health crisis, travel restrictions and dispute with the Company's joint venture partner, production has not yet commenced. Please refer to the Dragonfly litigation business update below.

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

Novel Food Application

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

Agricultural Initiatives

This year the Company has taken a multi-pronged approach to its farming initiatives including commissioning farmers to plant on certified organic land in conjunction with growing agreements with multiple European based hemp farmers. All biomass will be farmed in accordance with Good Agricultural Practice. The Nexus facility in Poland, when running at full (non-COVID-19) capacity, can process between 18,000 – 36,000 kilos of biomass every month.

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

Multi-Year Extraction Agreement

The Company, through its wholly owned subsidiary Borganic, had signed an agreement with UK-based Dragonfly Biosciences Limited ("**Dragonfly**") to form an exclusive joint venture company named Premium Extractions Ltd ("**PEI**"). The agreement sets out that PEI is owned 49% by Borganic and 51% by Dragonfly. The agreement also sets out that Dragonfly will purchase a minimum of 50,000 grams of CBD per month at 2 Euros per gram. Conversely, the agreement sets out that Borganic will provide PEI the capital to fund the development of the initial Romanian extraction facility located near the Bulgaria/Romania border, along with operational extraction management capabilities. The agreement stated that PEI will be the exclusive extractor for Dragonfly and was expected to also do third party tolling (extracting) for other companies. The joint venture agreement has been broken by both parties and there is a current legal dispute over the terms as described below.

Dragonfly Litigation

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

The Global CBD Marketplace

The CBD wellness products and wholesale bulk ingredient markets continue to see strong demand from consumers, wholesalers, manufacturers and brand owners however the number of producers has increased considerable during the period leading to a worldwide drop in prices. The regulatory environment continues to be fragmented; the UK FSA is setting a global benchmark in terms of consumer product safety with the implementation of Novel Foods in 2021, a process which has been paused by the EU EFSA, as the EU votes on the classification of CBD. CBD continues to be incorporated within a range of new consumer end products, such as cosmetics and edibles.

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

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

Selected Annual Information

Year Ended:	July 31, 2020	July 31, 2019	July 31, 2018	July 31, 2017
	$	$	$	$
Revenue	471,978	88,814	-	-
Gross profit (loss)	(21,256)	97,053	-	-
Selling, general and administrative (SG&A) Expenses	6,870,261	11,788,272	301,013	23,153
Net comprehensive loss for the year	(33,966,051)	(20,697,056)	(596,933)	(287,426)
Basic and diluted loss per share	(0.31)	(0.38)	(0.03)	(0.03)
Balance Sheet Data:				
Cash and short-term investment	5,752,888	15,580,243	97,575	617
Total assets	11,847,255	43,932,691	101,868	263,306
Accounts payable and accrued liabilities	798,574	635,005	34,791	46,412
Total liabilities	1,083,452	1,030,707	34,791	61,732
Shareholders' equity	10,763,803	42,901,984	67,077	201,574
Cash Flow Data:				
Increase (decrease) in cash for the year	(9,827,355)	15,482,668	96,958	634

RESULTS OF OPERATIONS

The Company incurred a net and comprehensive loss of $34,226,142 for the year ended July 31, 2020.

Selling, General and Administrative (**SG&A**) Expenses

SG&A expenses amounted to $6,870,261 (2019 - $11,788,272) for the year ended July 31, 2020.

Consulting – Consulting fees paid during the year ended July 31, 2020 totaled $1,757,600 (2019 - $5,913,690) and relate to compensation of key executives and consultants. In 2019, consulting fees were inflated by advisory and finders' fees paid in relation to the acquisition of Borganic and Olimax. As part of the Borganic acquisition, 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 of the Company as an advisory fee with a fair value of $1,260,000. As part of the Olimax acquisition, the Company granted 1,300,000 common shares as a finder's fee for a fair value of $1,495,000 and 700,000 common shares of the Company as an advisory fee with a fair value of $805,000. The Company also transitioned two senior members to payroll during the year further explaining the decrease from 2019.

Advertising – The Company incurred advertising expenditures totaling $550,872 (2019 - $3,069,369) during the year ended July 31, 2020. $530,248 of the 2020 fiscal total was incurred during quarter 1 of the Company's 2020 fiscal year as part of a marketing campaign intended to increase brand recognition and raise shareholder awareness as a result of the changes in business activity from a mining issuer to a life sciences issuer.

Share-based payments – Total share-based payments for the year ended July 31, 2020 using the Black-Scholes Option Pricing Model was $415,952 (2019 – 1,681,866). The 2020 share-based payments expense of $415,952 relates to the May 27, 2019 option issuance which carried a three-month vesting term. The fair value of options granted on May 27, 2019 was $1,417,318 of which $1,001,366 was recorded in the year-ended July 31, 2019.

In 2019 share-based payments recorded resulted from the issuance of the following stock options:

	Number of Options	Weighted Average Exercise Price
Issued, August 2, 2018	100,000	$0.19
Issued, October 12, 2018	1,050,000	$0.63
Issued, May 27, 2019	1,800,000	$1.23

Professional fees – Professional fees totaled $836,828 (2019 - $458,766) for the year ended July 31, 2020. The increase in professional fees over the prior year is a result of additional reporting requirements in new jurisdictions; increased legal fees relating to potential acquisitions announced during the year and legal fees attached to the litigation outstanding with the Company's joint venture partner – Dragonfly Biosciences Ltd.

Travel – The Company incurred travel expenditures of $254,810 (2019 - $294,054) during the year ended July 31, 2020. Key executive personal were required to make several trips of significant length to Poland, Romania and London to oversee operations and systems design. Management's original expectation was for the 2020 travel budget to surpass the 2019 figure; however, the travel budget was suspended in March of 2020 to adhere to the Company's COVID-19 policy.

Insurance – Insurance expense for the year-ended July 31, 2020 was $113,177 (2019 - $30,250). This increase was due to increase premiums relating to business expansion.

Wages and salaries – The Company saw wage expense increase by $928,104 in 2020 to a total expense of $968,302 (2019 - $40,198). Increased staffing at the Nexus facility in Poland in both the laboratory and extraction facility combined with the transfer of key executives from contractor positions to salaried employment account for the increase year over year.

<u>Other Items</u>

Finance income – The Company earned a total of $259,673 (2019 - $47,716) during the year-ended July 31, 2020. Finance income relates to interest earned on short-term investments held by the Company.

Impairment of inventory – Inventory impairment totaling $901,427 (2019 – Nil) was recorded during the year ended July 31, 2020. The Company tests inventories for impairment at each quarter-end and wrote down the hemp inventory to its net realizable value. Impaired inventory consists of hemp and seed inventory from the 2019 Olimax crop which the Company has determined does not contain high enough CBD concentrations to allow the extraction process to remain economically feasible.

Impairment and loss on sale of plant and equipment – The Company recorded asset impairment of $289,948 and a loss on sale of equipment of $159,483 during the 2020 fiscal year. The asset impairment was a result of a fire which damaged the Company's Class Jaguar 870 harvester as well as impairment recorded on farming equipment which was sold subsequent to year end ($235,630) as well as impairment recorded on farming equipment which was sold subsequent to year-end at a loss on net book value ($54,318). Plant and equipment are valued at cost, net of accumulated amortization and impairment losses. The impairment figure was arrived at by management based on a third-party valuation performed on the asset in its current state. The $159,483 loss on sale of equipment relates to the disposition of specific farming equipment purchased in 2019 which was deemed by management to have become redundant due to the strategic farming initiatives launched in 2020 outlined above in the Company's business update.

Impairment of goodwill and intangible assets - Impairment of goodwill totaling $20,815,518 and impairment of intangible assets totaling $990,165 were recorded during the quarter ended April 30, 2020. On each reporting date, the Company's management assesses whether there are events or changes in circumstances that would more likely than not reduce the fair value of its reporting units below the carrying values and, therefore, require the intangible assets and goodwill to be tested for impairment. Based on the Company's market capitalization and inherent fair value incorporated into the proposed acquisition of Sativa, the Company recorded impairment of both goodwill and intangible assets using the fair value less costs to sell approach. Goodwill and intangible assets including the customer relationships and brands were recorded on the acquisition of Olimax in May of 2019. The dramatic decrease in market demand for wholesale CBD isolate from the acquisition date to current date was another major indicator of impairment which the Company's management factored into the decision.

Impairment of investment in joint venture – The Company recorded a $3,709,024 impairment on the investment in Premium Extraction. The decisions to impair this investment fully was based on concerns that the court process may be protracted and therefore risk the ability to repay the investment made in a reasonable timeframe. Additionally, there has already been significant delays in generating income from the facility which the ongoing legal process was increasing. Therefore it was considered prudent to make a full impairment at this stage.

SUMMARY OF QUARTERLY RESULTS

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

Quarter Ended		Gross profit (loss)		Total expenses		Comprehensive loss for the period		Basic and Diluted Loss per share
July 31, 2020	$	48,555	$	1,230,215	$	4,620,824	$	(0.04)
April 30, 2020	$	(71,604)	$	1,282,356	$	24,413,491	$	(0.22)
January 31, 2020	$	(104,825)	$	1,957,973	$	3,040,018	$	(0.03)
October 31, 2019	$	106,618	$	2,399,717	$	1,891,718	$	(0.02)
July 31, 2019	$	97,053	$	7,671,463	$	7,689,046	$	(0. 07)
April 30, 2019	$	-	$	3,521,064	$	12,413,002	$	(0.23)
January 31, 2019	$	-	$	154,703	$	157,253	$	(0.00)
October 31, 2018	$	-	$	441,042	$	437,755	$	(0.02)

Quarter ended July 31, 2020

Revenue – The Company's total revenue for the quarter ended July 31, 2020 was $109,876. Revenue continued to result from the sale of isolate produced at the Company's Nexus facility in Poland. The Nexus facility remains in the testing phase yielding small amounts of CBD isolate for the marketplace.

Cost of sales related to inventory production – The Company's cost of sales was calculated using the following direct inputs for inventory production: Hemp Flower Biomass, Cost of Solvents, Energy Costs, and Fuel/Generator Costs required for production operations. The Company believes that the cost of production can be reduced dramatically with improvements to input hemp biomass, higher efficiency in solvent recovery, power supply upgrades currently underway to the Polish-based NEXUS facility, and additional training and experience in production best practices and standard operating procedures. The cost per kilogram of isolate varies depending on the quality of the input biomass which can lead to fluctuations on a per batch basis.

As of the date of this report, the company is increasing production at its Polish-based NEXUS facility following the harvest of the 2020 hemp crop in Europe, but with reduced capacity due to COVID-19 working practices and trading environment. The Company continues to test and optimize each section of the company's closed-loop ethanol extraction process to ensure continuous improvement and enhanced production efficiencies.

Consulting – The Company incurred consulting expenditures of $225,318 during the three-month period ended July 31, 2020. This figure was down $197,167 from the previous quarter because of actions taken by the Company to preserve cash flow and completion of major milestones at the Company's extraction facilities.

Amortization – Quarter four saw a decrease in amortization expense from the previous quarter of $70,975 totaling $134,702. The decrease resulted from the disposal of farming equipment during the quarter.

Professional fees – The Company reported $396,517 in professional fees during the fourth quarter of fiscal 2020, representing an increase of $256,440 over the previous quarter. The increase in professional fees is due to legal costs relating to the Company's legal suit with Dragonfly Biosciences Ltd., costs associated with reaching a definitive agreement and due diligence work surrounding the acquisition of the Sativa Group PLC, and fees incurred for work done towards the Company's THC Handling permit filing process in Poland.

Wages and salaries – The Company incurred wages and salaries expense of $235,134 in quarter four of 2020. The expense was down approximately 15% from the previous quarter due to temporary wage postponement taken by key management and extraction staff in conjunction with the Company's COVID-19 response plan.

Net and comprehensive loss – The Company realized a net and comprehensive loss of $4,620,824 for the three-month period ended July 31, 2020. Other items made up $3,677,708 of this loss and consisted primarily of the following:

Impairment of investment in joint venture - 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. To be prudent the Company fully impaired the investment of $3,709,024

Impairment of capital assets – During the fourth quarter of the fiscal year, the Company recognized impairment of capital assets totaling $157,686. The asset impairment was a result of a fire which damaged the Company's Claas Jaquar 870 harvester ($103,358) and assets sold after the quarter end at a loss ($54,318). The Claas Jaquar 870 harvester was originally impaired when the fire occurred in quarter three of 2020; however, management increased the impairment recorded based on advice from a third-party valuation of the asset.

Loss on sale of equipment – The Company recognized a $150,454 loss on sale of equipment in quarter four of 2020 relating to the disposition of specific farming equipment purchased in 2019 which was deemed by management to have become redundant due to the strategic farming initiatives launched in 2020 outlined above in the Company's business update.

Currency Translation – A Gain of $550,629 was recorded in the quarter to offset the additional costs

Quarter ended April 30, 2020

Revenue – Total revenue for the quarter ended April 30, 2020 was $130,104. Q3 saw a decrease in quarterly revenue of $101,894 compared to Q2 of 2020. This decrease in revenue was caused by the changing market conditions which decreased the value of brokered sales relationships. The company saw product returned from brokers who could no longer operate with such a tight margin re-emphasizing the need to develop B2B sales.

Revenue continued to be derived directly from sales of CBD isolate produced by the Company's Polish-based NEXUS facility. These sales were generated through the Company's B2B sales channel, which was developed through marketing and business development activities beginning in Q4 of 2019.

Consulting – The Company incurred consulting expenditures of $422,485 during the period ending April 30, 2020. This was figure was up approximately 8% over the previous quarter as the Company has engaged additional consultants to help secure the current licenses in Poland, and is currently focused on obtaining its HACCP. The Company anticipates the costs of consulting to drop in Q4 of 2020 as a result of cost saving measures due to COVID which have been implemented both in North American and Europe.

Advertising – The company incurred advertising expenditures of $6,700 during the period ending April 30, 2020, compared to $536,672 spent in the 2 previous quarters. Due to the dynamic and rapidly changing landscape of the global cannabis extract marketplace, the Company drastically reduced spending in advertising to preserve capital on hand to be used for operational growth and process development.

Professional fees – The company incurred expenditures totaling $140,077 for the three-month period ending April 30, 2020. Q3 saw an increase in professional fees over Q2 of 2020 by $84,425. The increase in fees relates to additional legal work surrounding potential acquisition targets.

Wages and salaries – The company paid wages and salaries totaling $275,530 for the three-month period ending April 30, 2020. Wages were consistent with the prior quarter which saw an expense of $271,388. The Company expects to see a significant drop in wages due to measures implemented in April as a response of the COVID-19 pandemic. These measures included a 18.5% wage postponement for head office employees and senior management to be paid next quarter and the temporary layoff of certain non-essential staff members in Poland and Romania.

Net and comprehensive loss – The Company realized a net and comprehensive loss of $24,413,491 for the three-month period ended April 30, 2020. Other items made up $22,651,945 of this loss and consisted of the following:

Impairment of goodwill and intangible assets – Impairment of goodwill totaling $20,815,518 and impairment of intangible assets totaling $990,165 were recorded during the quarter ended April 30, 2020. On each reporting date, the Company's management assesses whether there are events of changes in circumstances that would more likely than not reduce the fair value of its reporting units below the carrying values and, therefore, require the intangible assets and goodwill to be tested for impairment. Based on the Company's market capitalization and inherent fair value incorporated into the proposed acquisition of Sativa, the Company recorded impairment of both

Goodwill and intangible assets using the fair value less costs to sell approach. Goodwill and Intangible assets including the customer relationships and brands were recorded on the acquisition of Olimax in May of 2019. The dramatic decrease in market demand for wholesale CBD isolate from the acquisition date to current date was another major indicator of impairment which the Company's management factored into the decision.

Impairment of inventory – Inventory impairment totaling $813,863 was recorded during the three-month period ended April 30, 2020. The Company tests inventories for impairment at each quarter-end and wrote down the hemp inventory to its net realizable value. Impaired inventory consists of hemp and seed inventory from the 2019 Olimax crop which the Company has determined does not contain high enough CBD concentrations to allow the extraction process to remain economically feasible.

<u>Quarter ended January 31, 2020</u>

Revenue – Total revenue for the quarter ended January 31, 2020 was $231,998. This revenue was derived directly from sales of CBD isolate produced by the Company's Polish-based NEXUS facility. These sales were generated through the Company's B2B sales channel, which was developed through marketing and business development activities beginning in Q4 of 2019. As the Company began developing the B2B sales channel, the market for cannabis extracts saw an influx of supply which resulted in a large decrease in demand and a drop in the competitive market price to approximately $1500 USD per kilogram.

Cost of sales related to inventory production - Cost of sales was calculated using the following direct inputs for inventory production: Hemp Flower Biomass, Cost of Solvents, Energy Costs, Fuel/Generator Costs and Direct Labour required for production operations. The Company believes that the cost of production can be reduced with improvements to input hemp biomass, higher efficiency in solvent recovery, power supply upgrades currently underway to the Polish-based NEXUS facility, and additional training and experience in production best practices and standard operating procedures.

As at January 31, 2020, The compnay remained in the testing phase of operation at its Polish-based NEXUS facility. Each section of the company's closed-loop ethanol extraction process requires thorough testing and optimization to ensure continuous improvement and enhanced production efficiencies.

Consulting – The Company incurred consulting expenditures of $392,293 during the period ending January 31, 2020. This total equated to approximately half of the previous quarter which totaled $717, 504. Consulting expenditures were higher in the previous quarter than anticipated due to one time-time payments made to various consultants focused on future business development opportunities, along with consulting expenditures associated with the completion of the Olimax acquisition. During the most recent Q1 and Q2, the Company did add key advisory personnel to implement operational goals and develop future sales channels. Currently, the company is reviewing existing consulting contracts and associated expenditures to make every effort possible to preserve capital on hand without limiting potential growth.

Advertising – The company incurred advertising expenditures of $6,424 during the period ending January 31, 2020, compared to $530,248 spent in the quarter previous. Due to the dynamic and rapidly changing landscape of the global cannabis extract marketplace, the Company drastically reduced spending in advertising in order to preserve capital on hand to be used for operational growth and process development.

Share-based payments – On May 27, 2019, the Company granted 1,800,000 stock options, of which 650,000 were granted to certain directors of the Company. The options are exercisable after three months from the grant date for a period of five years at a price of $1.23 per share. Share-based payments relating to options vesting during the six-month's ended January 31, 2020 using the Black-Scholes Option Pricing Model was $415,952.

Professional fees – The company incurred expenditures totaling $55,832 for the three-month period ending January 31, 2020 compared to $244,402 in the previous quarter, relating to professional services rendered. The previous quarter saw an increase in audit accrual reflecting the increase in complexity in the year-end audit along with legal and accounting fees associated with the filing of the Business Acquisition Report associated with the acquisition of Olimax.

Wages and salaries – The company paid wages and salaries totaling $271,388 for the three-month period ending January 31, 2020. The increase in wages over previous quarters is a result of the additional staff hired at the Company's Nexus facility in Poland. The Company hired additional Extraction Technicians along with lab personnel in Poland to allow the Company to implement a seven days per week work schedule.

Quarter ended October 31, 2019

Gross Profit – The Company incurred a net loss of $1,891,718 for the three months ended October 31, 2019. Approximately 93% of operating expenses during the quarter were represented by five expense categories: Consulting, advertising, share-based payments, professional fees and wages and salaries.

Consulting – The Company incurred consulting expenditures of $717,504 during the quarter ended October 31, 2019. Consulting expenditures were higher than anticipated during the quarter due to one-time payments made to various consultants surrounding future business development opportunities along with consulting expenditures relating to the completion of the Olimax acquisition. The Company also added some key advisory personnel to help implement operational goals and expand future sales channels.

Advertising – The Company incurred advertising expenditures of $530,248 during the quarter ended October 31, 2019. This figure was within the Company's budget to increase brand recognition and raise shareholder awareness as a result of the recent changes in business activity from a mining issuer to a life sciences issuer.

Share-based payments – On May 27, 2019, the Company granted 1,800,000 stock options, of which 650,000 were granted to certain directors of the Company. The options are exercisable after three months from the grant date for a period of five years at a price of $1.23 per share. Share-based payments relating to options vesting during the quarter ended October 31, 2019 using the Black-Scholes Option Pricing Model was $415,952.

Professional fees – The company incurred expenditures totaling $244,402 for the three-month period ending October 31, 2019 relating to professional services rendered. Included in this total is an increased audit accrual reflecting the increase in complexity in the year-end audit along with legal and accounting fees associated with the filing of the Business Acquisition Report associated with the acquisition of Olimax.

Wages and salaries – The company paid wages and salaries totaling $186,250 for the three-month period ending October 31, 2019. The increase in wages over previous quarters is a result of transitioning key executives to salaried positions as well as securing additional staff to help expand operations in Poland.

CHANGE IN FINANCIAL CONDITION

As a response to the recent economic shutdown resulting from the COVID-19 pandemic, the Company has taken measures to preserve liquidity through implementation of the following measures:

- A temporary 18.5% wage postponement in Q4 & Q3 for head office employees and senior management and the temporary layoff of certain non-essential staff members in Poland and Romania;
- Temporary freeze on all non-essential travel expenditures in accordance with social distancing guidelines;
- Implementation of a marketing freeze with the exception of regulatory press releases and general website updates.

On May 7, 2019, the Company announced the completion of a brokered financing of an aggregate of 21,187,587 subscription receipts at a price of $1.15 per subscription receipt for aggregate gross proceeds of approximately $24,365,000. The net proceeds of the financing were released to the Company in connection with the satisfaction of the escrow release conditions by the Company through its successful acquisition of Olimax NT Sp .Z.O.O. The subscription receipts automatically converted into one common share of the Company and one-half of one common share purchase warrant. Each full warrant is exercisable to acquire one common share for a period of 12 months at an exercise price of $1.73. In connection with the acquisition of Olimax, the Company issued 450,000 common shares to certain finders. It also issued 700,000 common shares to certain consultants in exchange for financial advisory services.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2020, the Company had working capital of $5,194,359 (July 31, 2019: $15,982,946).

During the year ended July 31, 2020, the cash used in operating activities amounted to $5,312,496. The cash flow used by operations before changes in operating assets and liabilities amounted to $5,321,214. Changes in non-cash working capital items represented a increase in cash of $8,718.

During the year ended July 31, 2020, the cash used in investing activities amounted to $5,815,613. $5,255,299 of this total was used to finance harvesting and extraction equipment as well as continue construction of the Company’s Nexus facility in Poland. The proceeds received from the disposition of equipment was $577,543. The remaining $1,137,857 was used to finance Premium Extractions capital requirements, licensing efforts and operational costs associated with the joint venture.

During the year ended July 31, 2020, the Company issued 3,050,355 common shares resulting from the exercise of warrants raising additional share capital of $1,411,918. Lease payments for the year totaled $111,164. These lease payments relate to vehicles and farming equipment leased in Poland as well as right of use leases in Vancouver, BC.

Subsequent to July 31, 2020, the Company disposed of agricultural equipment consisting of a bailer, trailer and a tractor for proceeds of approx. $126,785.

As at July 31, 2020, the Company has begun manufacturing CBD isolate, but has yet to generate material operations that generate significant cash flows and its long-term financial success is dependent on the completion of existing CBD extraction facilities, the maturity and development of a stable wholesale CBD marketplace or engaging in other profitable business ventures and opportunities.

OFF BALANCE SHEET ARRANGEMENTS

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

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**
Wages and salaries	$	287,000	$	Nil
Consulting fees to Directors and key management personnel		354,003		326,459
Share-based compensation		150,205		758,604
	$	791,208	$	1,085,063

CONTINUING AND CONTRACTUAL OBLIGATIONS

In June of 2020, The Company announced that it had signed a supply agreement with Brains Bioceutical Corp to supply bulk CBD for processing to their European operations

In September 2018, the Company entered into a sublease agreement for their head office, with sublease term of 3 years. The base rent for the first year of the sublease is $28,800.

In November 2019, the Company entered into an additional sublease agreement at the Corporate head office with sublease term of twenty-one months. The base rent for the first year of the sublease is $38,400.

Through its wholly owned subsidiary Borganic, the company has signed an agreement with UK-based Dragonfly Biosciences Limited to form an exclusive joint venture company named Premium Extractions Ltd. The agreement sets out that PEI is owned 49% by Borganic and 51% by Dragonfly. The agreement also sets out that Dragonfly will purchase a minimum of 50,000 grams of CBD per month at 2 Euros per gram. Conversely, the agreement sets out that Borganic will provide PEI the capital to fund the development of the initial Romanian extraction facility located near the Bulgaria/Romania border, along with operational extraction management capabilities. PEI will be the exclusive extractor for Dragonfly and will also do third party tolling (extracting) for other companies. Please refer to the Dragonfly litigation update above.

RISKS AND UNCERTAINTIES

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

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

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

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

Risks Related to the Issuer's Business

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

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

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

New Industry and Market

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

Reliance on Licenses and Authorizations

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

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

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

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

The Issuer has constructed CBD extraction facilities, namely the Origin Facility and the Nexus Facility (together, the "**Company Facilities**"), and this component of the Issuer’s business plan is subject to considerable risks, including:

- there is no assurance that the company Facilities will achieve the intended CBD extraction rates;
- the costs of constructing and operating the company Facilities may be greater than anticipated and the Issuer may not be able to recover these greater costs through increases in CBD extraction and production;
- the potential distribution or manufacturer partners who have indicated a willingness to purchase our CBD products may withdraw if our CBD products are not produced by the anticipated timeline; and
- the revenues from the sales of the CBD products may be less than anticipated.

Change of Cannabis Laws, Regulations, and Guidelines

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

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

Uncertain Demand for Cannabis and Derivative Products

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

Product Liability

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

Product Recalls

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

Regulatory Compliance Risks

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

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

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

Retention and Acquisition of Skilled Personnel

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

Risks Inherent in an Agricultural Extraction Business

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

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

Limited Operating History

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

Managing Growth

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

Legal and Regulatory Proceedings

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

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

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

The Issuer's insurance may cover only part of the losses it may incur and does not cover losses on crops due to drought or floods. Furthermore, certain types of risks may not be covered by the policies that the Issuer may holds. Additionally, any claims to be paid by an insurer due to the occurrence of a casualty covered by the Issuer's policies may not be sufficient to compensate the

Issuer for all of the damages suffered. The Issuer may not be able to maintain or obtain insurance of the type and amount desired at a reasonable cost. If the Issuer were to incur significant liability for which it was not fully insured, it could have a materially adverse effect on the Issuer's business, financial condition and results of operations.

Inter-company Transfers of Funds

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

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

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

- compliance with internal procedures and applicable local regulations.

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

Global Economy

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

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

Additional Risks Relating to Doing Business Internationally

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

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

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

- adverse currency rate fluctuations;

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

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

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

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

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

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

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

- laws and business practices favouring local companies;

- political, social or economic unrest or instability;

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

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

- difficulties in enforcing or defending intellectual property rights; and

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

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

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

Enforcement of Judgments

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

Difficulty Enforcing Canadian Law

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

Risks Related to Financial and Accounting

Access to Capital

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

Market for Securities and Volatility of Share Price

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

Foreign Sales and Currency Fluctuations

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

Estimates or Judgments Relating to Critical Accounting Policies

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

ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

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

OUTSTANDING SHARE DATA

As of July 31, 2020, the Company had 110,874,747 issued and outstanding common shares. As of the date of this MD&A, the Company has 302,592,941 issued and outstanding shares.

Non-Brokered Private Placement

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 was exercisable into one common share at a price of $0.50 per share until October 10, 2019. 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 finder's warrant was exercisable into one common share at $0.50 until October 10, 2019.

Acquisition of Borganic

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.

Acquisition of Olimax and Brokered Financing

On May 7, 2019, the Company acquired all of the issued and outstanding shares of Olimax in exchange for 24,000,000 common shares of the Company and $2,000,000 cash consideration. In connection with the acquisition of Olimax, 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.

As part of the acquisition of Olimax, the Company announced the completion of a brokered financing of an aggregate of 21,187,587 subscription receipts at a price of $1.15 per subscription receipt for aggregate gross proceeds of approximately $24,365,000. The net proceeds of the financing were released to the Company in connection with the satisfaction of the escrow release conditions by the Company through its successful acquisition of Olimax. The subscription receipts automatically converted into one common share of the Company and on-half of one common share purchase warrant. Each warrant is exercisable to acquire one common share for a period of 12 months at an exercise price of $1.73. 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 $384,628.68 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.

Exercise and Expiration of Warrants

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 3,191,305 common shares for exercise of warrants for proceeds of $630,403.

On October 10, 2019, 4,774,560 warrants issued at an exercise price of $0.50 on October 10, 2018 expired and were removed from the Company's warrant register.

On May 7, 2020, 12,076,925 warrants issued at an exercise price of $1.73 on May 7, 2019 expired and were removed from the Company's warrant register.

Options:

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**
Issued August 2, 2018	100,000	0.19
Issued October 12, 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
Issued May 27, 2019	1,800,000	1.23
Balance, July 31, 2019	**3,635,000**	**$0.83**
Balance, July 31, 2020	**3,635,000**	**$0.83**

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 and contractors 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 did not exceed 11,087,474 Common Shares as July 31, 2020. The Company intends to amend the Fixed Option Plan to accommodate for the acquisition of the Sativa Group PLC subsequent to year-end. 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.

Warrants:

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

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2018	5,450,000	$0.10
Granted, October 10, 2018	8,421,200	0.50
Granted, 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	(4,774,560)	0.50
Expired, May 7, 2020	(12,076,925)	1.66
Balance, July 31, 2020	**3,097,500**	**$0.10**

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
3,097,500			**3,097,500**

APPOINTMENTS AND RESIGNATION OF DIRECTORS AND EXECUTIVE OFFICERS

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

Board of Directors

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

Officers

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

FINANCIAL AND DISCLOSURE CONTROLS AND PROCEDURES

During the year ended July 31, 2020, there has been no significant change in the Company's internal control over financial reporting.

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete, reliable and timely. They are also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A and the Company's consolidated financial statements for the year ended July 31, 2020.

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

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

APPROVAL

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