

ORION NUTRACEUTICALS INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED NOVEMBER 30, 2019 AND 2018

Expressed in Canadian Dollars

NOTICE OF NO AUDITOR REVIEW

Under National Instrument 51-102, Part 4 subsection 4.3 (3), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the unaudited condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Orion Nutraceuticals Inc. have been prepared by and are the responsibility of management.

These condensed consolidated interim financial statements for the six months ended November 30, 2019 have not been reviewed or audited by the Company's independent auditors in accordance with standards established by the Chartered Professional Accountants of Canada.

Orion Nutraceuticals Inc.

Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

AS AT	November 30, 2019 (Unaudited)	May 31, 2019 (Audited)
ASSETS		
Cash	\$ 5,926	\$ 5,272
Taxes receivable	91,448	78,870
Prepays	-	2,500
TOTAL ASSETS	\$ 97,374	\$ 86,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable (Note 5)	\$ 426,798	\$ 451,137
Accrued liabilities	-	18,677
TOTAL LIABILITIES	426,798	469,814
SHAREHOLDERS' EQUITY		
Share Capital (Note 6)	5,501,319	5,367,925
Obligation to issue shares (Note 6)	-	91,655
Share-based payment reserve (Note 6)	787,451	754,193
Deficit	(6,618,194)	(6,596,945)
TOTAL SHAREHOLDERS' EQUITY	(329,424)	(383,172)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 97,374	\$ 86,642

Nature of Operations and Going Concern (Note 1)

Approved by the Directors:

"Joel Dumaresq"

"Robin Linden"

See accompanying notes to the condensed interim consolidated financial statements

Orion Nutraceuticals Inc.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	For the three month period ended, November 30,		For the six month period ended, November 30,	
	2019	2018	2019	2018
EXPENSES				
Consulting fees (Notes 5 and 6)	\$ -	\$ 167,789	\$ 15,896	\$ 167,789
Management fees (Notes 5 and 6)	-	99,166	73,500	181,666
Office administration	3,471	89,815	5,286	109,803
Professional fees	-	49,083	2,691	132,282
Regulatory and transfer agent fees	7,147	21,712	10,102	27,406
Shareholders communications	-	-	-	5,000
Travel	-	1,029	-	9,052
Share based compensation (Notes 6)	27,851	311,938	33,258	741,770
	38,469	740,532	140,733	1,374,768
Gain on settlement of loan payable (Note 6)	(81,109)	-	(119,484)	(112,500)
Gain (loss) and comprehensive gain (loss) for the period	\$ 42,640	\$ (740,532)	\$ (21,249)	\$ (1,262,268)
Basic and diluted loss per share	(0.00)	(0.02)	(0.00)	(0.04)
Weighted average number of common shares outstanding	49,372,067	43,728,850	48,995,900	32,096,815

See accompanying notes to the condensed interim consolidated financial statements

Orion Nutraceuticals Inc.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share capital		Obligation to issue shares	Subscriptions received in advance	Share-based payment reserve	Deficit	Total
	Number of shares	Amount \$					
Balance at May 31, 2018	25,784,000	646,050	-	739,000	2,585	(205,773)	1,181,862
Shares issued for cash (Note 6)	17,573,400	3,914,600	-	(739,000)	-	-	1,159,100
Shares issued for investment	2,289,000	572,250	-	-	-	-	572,250
Shares issued for acquisition	800,000	200,000	-	-	-	-	200,000
Subscriptions received in advance	.	-	-	-	-	-	195,700
Stock based compensation	.	-	-	-	741,770	-	741,770
Loss for the period	.	-	-	-	-	(1,262,268)	(1,262,268)
Balance at November 30, 2018	46,446,400	5,332,900	-	-	744,355	(1,468,041)	4,609,214
Balance at May 31, 2019	48,457,067	5,367,925	91,655	-	754,193	(6,596,945)	(383,172)
Shares issued for services (Note 6)	1,375,000	133,394	(91,655)	-	-	-	41,739
Share based compensation (Note 6)	.	-	-	-	33,258	-	33,258
Loss for the period	.	-	-	-	-	(21,249)	(21,249)
Balance at November 30, 2019	49,832,067	5,501,319	-	-	787,451	(6,618,194)	(329,424)

See accompanying notes to the condensed interim consolidated financial statements

Orion Nutraceuticals Inc.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars -unaudited)

	November 30, 2019	November 30, 2018
OPERATING ACTIVITIES		
Loss for the period	\$ (21,249)	\$ (1,262,268)
Adjustments for non-cash items:		
Consulting fee	5,215	-
Gain on settlement of loan payable	(119,484)	112,500
Stock based compensation	32,258	741,770
Net change in non-cash working capital accounts:		
Accounts receivable	(12,578)	(52,475)
Prepaid	2,500	(1,047,294)
Accounts payable	92,992	60,555
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(19,346)	(1,447,212)
FINANCING ACTIVITIES		
Loan from related party	20,000	-
Proceeds from issuance of stock, net of share issuance costs	-	3,175,600
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	20,000	3,175,600
INVESTING ACTIVITIES		
Investment	-	(1,812,685)
Acquisition advance	-	(239,555)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-	(2,052,240)
Increase (decrease) in cash in the period	654	(323,852)
Cash, beginning	5,272	353,817
CASH, ENDING	\$ 5,926	\$ 29,965

During the six months ended November 30, 2019 and 2018, the Company did not pay any interest or income tax payments.

See accompanying notes to the condensed interim consolidated financial statements

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

1. NATURE OF OPERATIONS AND GOING CONCERN

Orion Nutraceuticals Inc. (the “Company” or “Orion”) was incorporated under the Business Corporations Act of British Columbia on November 7, 2017. On October 17, 2018, the shares of the Company commenced trading on the Canadian Securities Exchange (“CSE”) under the trading symbol ORI. The Company’s head office and principle place of business is located at Suite 810 -789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The Company’s business is the acquisition of, or investment in, subsidiaries in global markets to grow cannabis and extract cannabis oil that will be used as an ingredient in proprietary health and beauty products and distributed in bulk to other manufacturers.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning they will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. During the period ended November 30, 2019, the Company incurred a net loss of \$21,249 (2018 - \$1,262,268) and at November 30, 2019, the Company had a working capital deficiency of \$329,424 (2018 – working capital of \$383,172). The Company’s ability to meet its obligations and maintain its current operations is contingent upon successful completion of additional financing arrangements, continued cooperation of creditors and related parties, and ultimately upon the discovery of proven reserves and generating profitable operations. These material uncertainties may cast significant doubt upon the entity’s ability to continue as a going concern.

The Company will depend almost exclusively on equity financing. Such equity financings will include the issuance of additional equity shares. There can be no assurance that equity financings will be available to meet the continuing operating costs or, if the equity is available, that it will be on terms acceptable to the Company. The issuances of additional equity securities by the Company may result in significant dilution to the equity interests of its current shareholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company’s liabilities and future cash commitments. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the business and future success may be adversely affected, thus giving rise to doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and reclassification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Statement of compliance with International Financial Reporting Standards

These condensed consolidated interim financial statements have been prepared in accordance with the accounting policies described in Note 2 of the Company’s annual audited financial statements as at and for the year ended May 31, 2019. Accordingly, these condensed consolidated interim statements for the six months ended November 30, 2019 should be read together with the annual audited financial statements as at and for the year ended May 31, 2019.

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in accordance with the International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”).

These condensed consolidated interim financial statements have been prepared on the accrual basis and are based on historical costs, modified where applicable. The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted.

These consolidated financial statements were approved by the Board of Directors and authorized for issuance by the Board of Directors on January 27, 2020.

Basis of preparation

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars, which unless otherwise noted, is the Company’s functional currency.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (CONTINUED)

Basis of Consolidation

The Company's consolidated financial statements include the accounts of the Company and its subsidiary MedicOasis Inc. ("MedicOasis") in which the Company has a 99% ownership. A subsidiary is an entity controlled by the Company, where control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the Company's subsidiaries are included in the consolidated financial statements. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

During the year ended May 31, 2019 and August 31 2019, MedicOasis was inactive and as a result the balance of the non-controlling interest as at May 31, 2019 and November 31, 2019 is \$Nil.

Significant Accounting Policies

In preparing these condensed consolidated interim financial statements, the significant accounting policies and the significant judgments made by management in applying the Company's significant accounting policies and key sources of estimation uncertainty were the same as those that applied to the Company's audited consolidated financial statements for the year ended May 31, 2019, with exception to the new accounting policies adopted by the Company discussed below.

The preparation of condensed consolidated interim financial statements requires that the Company's management make judgments and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period. Actual future outcomes could differ from present estimates and judgments, potentially having material future effects on the Company's condensed interim financial statements. Estimates are reviewed on an ongoing basis and are based on historical experience and other facts and circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

During the period ended November 30, 2019, the Company adopted IFRS 16 – Leases. There was no impact upon adoption of IFRS 16 on its results and financial position.

New or revised accounting standards

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

3. INVESTMENT

On May 26, 2018, the Company signed an agreement with FCM Global S.A.S ("FCM"), Promotora AAA S.A.S ("Promotora") and certain other non-related parties to acquire an initial 25% stake (30,167 shares) in FCM with a further 10% to be earned upon listing and an option to earn an additional 14% in 2020. The initial 25% is being acquired for USD\$7,500,000 in staged payments until November 2018. FCM operates in the cannabis space in Colombia.

During the year ended May 31, 2018, the Company made payments of \$519,625 (USD\$400,000) in exchange for 1,608 FCM common shares.

During the year ended May 31, 2019, the Company made payments of \$1,847,685 (USD\$1,400,183) and issued 2,289,000 common shares with a fair value of \$400,575 in exchange for 13,271 FCM common shares (Note 6).

As at May 31, 2019, the Company is no longer pursuing FCM and has recognized an impairment of \$2,767,885.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in Canadian dollars)

For the period ended November 30, 2019 and 2018

4. ACQUISITION

On May 31, 2018, the Company entered into an agreement with MedicOasis, Yu Zhi Wang (“Wang”), Antonio Bramante (“Antonio”), and Canna Technology Inc. (“CannaTechnology”) to purchase all of the issued and outstanding shares of MedicOasis. Consideration for the shares is as follows:

To acquire the first 99%:

- a) \$400,000 in cash to Wang within 5 business days of signing of the agreement (paid);
- b) \$650,000 in Orion common shares at an agreed price of \$1.00 per Orion Share and a further \$150,000 in Orion Shares, representing past consulting services provided by CannaTechnology, with an agreed price of \$1.00 per Orion Share within 5 days of signing of the agreement (issued 650,000 shares with a fair value of \$16,250 and 150,000 shares with a fair value of \$3,750 (Note 6));

To acquire the last 1%:

- c) \$650,000 in Orion Shares at an agreed price of \$1.00 per Orion Share to CannaTechnology once MedicOasis has been granted the City building permits to start construction (issued 650,000 common shares with a fair value of \$156,000 (Note 6));
- d) \$650,000 in Orion Shares at an agreed price per Orion Share equal to the market price of the Orion Shares at the time of issuance to CannaTechnology once MedicOasis has received Health Canada approval for Ready to Build stage; and
- e) \$650,000 in Orion Shares at an agreed price per Orion Share equal to the market price of the Orion Shares at the time of issuance to CannaTechnology once MedicOasis has received Health Canada approval for cultivation.

In accordance with IFRS 3 Business Combinations, a business combination is a transaction in which an acquirer obtains control of a business which is defined as an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors. For an integrated set of activities and assets to be considered a business, the set needs to contain inputs and processes. This acquisition does not meet the definition of a business combination as the primary asset is an intangible asset for license under Health Canada’s *Access to Cannabis for Medical Purposes Regulations* (“ACMPR”), which was still in the application stage and not operational at the time of acquisition. Consequently, the transaction has been recorded as an acquisition of an asset. The results of operations from MedicOasis are included in the consolidated financial statements since the date of acquisition.

During the year ended May 31, 2019, the Company incurred \$14,298 in expenditures related to the license application. As at May 31, 2019, the Company is no longer pursuing the license application and recognized impairment of \$736,806.

The following table summarizes the consideration paid and the allocation to the assets and liabilities acquired as at the date of acquisition:

	\$
Cash	400,000
Fair value of common shares issued (1,300,000 shares)	172,250
Total purchase consideration	572,250
License	100
Due to shareholder	(258)
Accounts payable	(150,000)
Net assets acquired	(150,158)
Excess of consideration over net assets acquired	722,408

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

5. RELATED PARTY TRANSACTIONS AND BALANCES

The Company defines key management as directors and officers of the Company.

During the period ended November 30, 2019, the Company paid or accrued the following to key management compensation:

	November 30, 2019	November 30, 2018
	\$	\$
Management fees paid or accrued to the former CCO and related companies	-	60,000
Consulting fees paid or accrued to a director of the Company	79,433	16,666
Management fees paid or accrued to the former CFO and related companies	37,500	45,000
Management fees paid or accrued to the former CEO and related companies	33,600	60,000
Total	150,533	181,666

At November 30, 2019, the Company owes \$69,997 (2018 - \$135,697) directly or to companies controlled by key management personnel, which is included in accounts payable. These amounts are unsecured, non-interest bearing and due on demand.

6. SHARE CAPITAL AND RESERVES

Authorized: Unlimited common shares without par value

Issued and Outstanding:

For the period ended November 30, 2019:

The Company issued 1,375,000 common shares for services with a fair value of \$133,394. The Company reclassified \$91,655 from obligation to issue shares to share capital. The Company recognized a gain on settlement of debt of \$119,484.

For the year ended May 31, 2019:

On June 6, 2018, the Company issued 4,000,000 common shares for gross proceeds of \$100,000. The Company transferred \$75,000 from share subscriptions received to share capital.

On June 12, 2018, the Company issued 650,000 common shares to acquire 99% of MedicOasis with a fair value of \$16,250 (Note 4).

On June 12, 2018, the Company issued 150,000 common shares with a fair value of \$3,750 to settle accounts payable of \$150,000 (Note 4). The Company recorded a gain on settlement of debt of \$146,250.

On June 22, 2018, the Company issued 763,000 common shares to acquire shares of FCM with a fair value of \$19,075 (Note 3).

On June 27, 2018, the Company issued 7,192,400 common shares for gross proceeds of \$1,798,100. The Company transferred \$664,000 from share subscriptions received to share capital. The Company paid finders fees of \$6,800.

On July 31, 2018, the Company issued 763,000 common shares to acquire shares of FCM with a fair value of \$190,750 (Note 3).

On August 27, 2018, the Company issued 763,000 common shares to acquire shares of FCM with a fair value of \$190,750 (Note 3).

On September 21, 2018, the Company issued 4,696,000 common shares for gross proceeds of \$1,174,000. The Company paid finders fees of \$8,800.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

6. SHARE CAPITAL AND RESERVES (CONTINUED)

For the year ended May 31, 2019 (Continued):

On November 30, 2018, the Company issued 1,685,000 Units ("Unit") for gross proceeds of \$842,500. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant expires on November 30, 2020 with an exercise price of \$1.00. The Company uses the residual value method and as a result no value was assigned to the Warrants.

On December 3, 2018, the Company issued 25,000 common shares from obligation to issue shares with a fair value of \$6,250.

On January 2, 2019, the Company issued 50,000 common shares from obligation to issue shares with a fair value of \$2,500.

On March 1, 2019, the Company issued 75,000 common shares from obligation to issue shares with a fair value of \$8,750.

On March 1, 2019, the Company issued 650,000 common shares to acquire 99% of MedicOasis with a fair value of \$156,000 (Note 4).

On March 29, 2019, the Company issued 544,000 Units ("Unit") for gross proceeds of \$136,000. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant expires on March 29, 2020 with an exercise price of \$0.50. The Company uses the residual value method and as a result \$27,200 was assigned to the Warrants.

On April 10, 2019, the Company issued 666,667 common shares for digital media services with a fair value of \$120,000.

Obligation to issue shares

During the period ended May 31, 2018, the Company agreed to issue 200,000 common shares with a fair value of \$10,000 to a key executive of the Company over a period of two years. During the year ended May 31, 2019, 100,000 common shares were issued (2018 – Nil) and \$6,051 of the vested services were recorded in management fees (2018 - \$2,585). Of the shares owing to the executive, as at May 31, 2019 \$3,636 was recorded in obligation to issue shares (2018 - \$2,585). During the period ended November 30, 2019, \$735 were recorded in share based compensation and the Company issued 100,000 common shares with a fair value of \$4,371. As at November 30, 2019, \$Nil was recorded in obligation to issue shares (May 31, 2019 - \$3,636).

During the year ended May 31, 2019, the Company agreed to issue 100,000 common shares with a fair value of \$25,000 to a consultant of the Company over a period of one year. During the year ended May 31, 2019, 50,000 common shares were issued and \$23,150 of the vested services were recorded in consulting fees. Of the shares owing to the consultant, as at May 31, 2019, \$10,650 was recorded in obligation to issue shares. During the period ended November 30, 2019, the Company recognized share based compensation of \$1,850 and issued 50,000 common shares with a fair value of \$12,500.

During the year ended May 31, 2019, the Company agreed to issue 300,000 common shares with a fair value of \$60,000 to a director of the Company over a period of three months. During the year ended May 31, 2019, \$57,369 of the vested services were recorded in consulting fees. Of the shares owing to the director, as at May 31, 2019, \$57,369 was recorded in obligation to issue shares. During the period ended November 30, 2019, the Company recognized share based compensation of \$2,822 and issued 300,000 common shares with a fair value of 60,000.

During the year ended May 31, 2019, the Company agreed to issue 100,000 common shares with a fair value of \$20,000 to a key executive of the Company, for which \$20,000 was recorded in management fees and \$20,000 was recorded in obligation to issue shares at May 31, 2018. During the period ended November 30, 2019, the Company issued 100,000 common shares with a fair value of \$20,000.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

6. SHARE CAPITAL AND RESERVES (CONTINUED)

Share Purchase Warrants

The following table summarizes warrant activity:

	Number of warrants	Weighted average price \$
Balance, at May 31, 2018	-	-
Issued	2,229,000	0.88
Balance at May 31, 2019 and November 30, 2019	2,229,000	0.88

Share purchase warrants outstanding at November 30, 2019 is as follows:

Number of warrants outstanding and exercisable	Exercise price \$	Expiry date	Weighted Average Remaining Life (years)
1,685,000	1.00	November 30, 2020	1.00
544,000	0.50	March 29, 2021	1.33
2,229,000			1.11

Options

The Company grants stock options to employees, directors, officers, and consultants of the Company as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options have a maximum expiry period of up to five years from the grant date and are subject to minimum vesting requirements, as determined by the Board of Directors. The number of options that may be issued under the Plan may not exceed 20% of the number of issued and outstanding common shares of the Company at the time of granting of options.

The following table summarizes options activity:

	Number of options	Weighted average price \$
Balance, at May 31, 2018	-	-
Issued	4,200,000	0.26
Balance at May 31, 2019	4,200,000	0.26
Issued	300,000	0.15
Expired	(1,950,000)	0.25
Balance, November 30, 2019	2,550,000	0.24

On September 13, 2019, the Company issued 300,000 stock options to a director of the Company with an exercise price of \$0.15 and expires on September 13, 2023. The options vested immediately. The total fair value of the stock options was estimated to be \$27,851 using the Black-Scholes Option Pricing Model with the following assumptions: stock price - \$0.10; exercise price - \$0.15; expected life - 5 years; volatility - 210% and risk-free rate - 1.55%.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
For the period ended November 30, 2019 and 2018

6. SHARE CAPITAL AND RESERVES (CONTINUED)

Options (Continued)

Information regarding share purchase warrants outstanding at November 30, 2019 is as follows:

Number of options outstanding and exercisable	Exercise price \$	Expiry date	Weighted Average Remaining Life (years)
550,000	0.25	August 15, 2023	3.96
600,000	0.25	October 5, 2023	4.10
500,000	0.25	October 5, 2020	1.10
150,000	0.44	November 14, 2020	1.21
150,000	0.43	November 20, 2020	1.22
300,000	0.22	February 21, 2021	1.48
300,000	0.15	September 13, 2023	4.04
2,550,000			2.83

On August 15, 2018, the Company granted 2,300,000 stock options with an exercise price of \$0.25 per share expiring on August 15, 2023. 2,081,250 options vested immediately with the remaining 218,750 options vesting 12.5% every 3 months. The total fair value of the stock options was estimated to be \$431,475 using the Black-Scholes Option Pricing Model with the following assumptions: term of 5 years; expected volatility of 100%; risk-free rate of 2.16%; and expected dividends of zero. As at May 31, 2019, the number of exercisable options was 2,175,000. During the year ended May 31, 2019, the Company recognized share based compensation of \$422,112.

Share-based payment reserve

The share-based payment reserve records items recognized as stock based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

7. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to carry out exploration and evaluation activities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company consists of common shares. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash.

The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its business for the benefit of its stakeholders. There were no changes in the Company's approach to capital management during the year. There are no externally imposed capital requirements.

Orion Nutraceuticals Inc.

Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)
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8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair values

The fair values of cash and accounts payable approximate their carrying values due to the short-term to maturities of these financial instruments.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

(b) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash. The risk in cash is managed through the use of a major financial institution which has a high credit quality as determined by rating agencies. Credit risk is assessed as low.

(d) Foreign exchange rate risk

Foreign exchange risk is the risk that the Company's financial instruments will fluctuate in value as a result of movements in foreign exchange rates. The Company has no assets or liabilities denominated in foreign currencies; therefore, is not exposed to foreign exchange risk.