

ORION NUTRACEUTICALS INC.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED MAY 31, 2020 AND 2019

Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Orion Nutraceuticals Inc.:

Opinion

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

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

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

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

DMC

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

September 28, 2020



An independent firm
associated with Moore
Global Network Limited

Orion Nutraceuticals Inc.

Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

AS AT,	May 31, 2020		May 31, 2019	
ASSETS				
Cash	\$	501,293	\$	5,272
Taxes receivable		83,199		78,870
Prepaid expenses		475		2,500
TOTAL ASSETS	\$	584,967	\$	86,642
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Accounts payable (Note 5)	\$	657,153	\$	451,137
Accrued liabilities		148,695		18,677
Loans payable (Note 6)		44,000		-
TOTAL LIABILITIES		849,848		469,814
SHAREHOLDERS' DEFICIT				
Share capital (Note 7)		5,963,570		5,367,925
Obligation to issue shares (Note 7)		-		91,655
Share-based payment reserve (Note 7)		754,737		754,193
Deficit		(6,982,266)		(6,596,945)
Attributable to Shareholders		(263,959)		(383,172)
Non-controlling interest (Note 4)		(922)		-
TOTAL SHAREHOLDER'S DEFICIT		(264,881)		(383,172)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	\$	584,967	\$	86,642

Nature of Operations and Going Concern (Note 1)

Subsequent Events (Note 11)

Approved by the Directors:

"Robin Linden"

"Sam Jenkins"

See accompanying notes to the consolidated financial statements

Orion Nutraceuticals Inc.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

	For the year ended May 31, 2020	For the year ended May 31, 2019
EXPENSES		
Business development	\$ -	\$ 643,542
Consulting fees (Notes 5 and 7)	311,526	503,680
Management fees (Notes 5 and 7)	148,503	408,051
Office administration	19,519	17,663
Professional fees	34,764	208,429
Regulatory and transfer agent fees	28,241	62,942
Shareholders communications	-	5,000
Travel	-	14,462
Share based compensation (Notes 5 and 7)	544	726,993
Marketing	-	60,000
Rent	-	381,969
	(543,097)	(3,032,731)
OTHER ITEMS		
Gain on settlement of loan payable (Note 7)	156,854	146,250
Impairment (Notes 3 and 4)	-	(3,504,691)
Loss and comprehensive loss for the year	\$ (386,243)	\$ (6,391,172)
Net and comprehensive loss attributable to:		
Shareholders of Orion	\$ (385,321)	\$ (6,391,172)
Non-controlling interests (Note 4)	(922)	-
	(386,243)	(6,391,172)
Basic and diluted loss per share	\$ (0.20)	\$ (3.66)
Weighted average number of common shares outstanding	1,911,015	1,742,667

See accompanying notes to the consolidated financial statements

Orion Nutraceuticals Inc.

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

	Share capital								
	Number of shares*	Amount	Obligation to issue shares	Subscriptions received in advance	Share- based payment reserve	Deficit	Non- controlling Interest	Total	
Balance at May 31, 2018	1,031,358	\$ 646,050	\$ 2,585	\$ 739,000	\$ -	\$ (205,773)	\$ -	\$ 1,181,862	
								-	
Shares issued for cash (Note 7)	724,696	4,023,400	-	(739,000)	27,200	-	-	3,311,600	
Share issuance cost – finders fees (Note 7)	-	(15,600)	-	-	-	-	-	(15,600)	
Shares issued for acquisition of MedicOasis (Notes 4 and 7)	52,000	172,250	-	-	-	-	-	172,250	
Shares issued for acquisition of FCM (Notes 3 and 7)	91,560	400,575	-	-	-	-	-	400,575	
Shares issued for services (Note 7)	26,667	120,000	-	-	-	-	-	120,000	
Shares issued to satisfy obligation to issue shares (Note 7)	6,000	17,500	(17,500)	-	-	-	-	-	
Shares issued to settle debt (Note 7)	6,000	3,750	-	-	-	-	-	3,750	
Share based compensation (Note 7)	-	-	-	-	726,993	-	-	726,993	
Obligation to issue shares (Note 7)	-	-	106,570	-	-	-	-	106,570	
Net and comprehensive loss	-	-	-	-	-	(6,391,172)	-	(6,391,172)	
Balance at May 31, 2019	1,938,281	5,367,925	91,655	-	754,193	(6,596,945)	-	(383,172)	
Shares issued for services (Note 7)	18,000	92,500	(92,500)	-	-	-	-	-	
Shares issued for private placement (Note 7)	4,727,274	500,000	-	-	-	-	-	500,000	
Shares issued to settle debt (Note 7)	37,000	3,145	-	-	-	-	-	3,145	
Obligation to issue shares (Note 7)	-	-	845	-	-	-	-	845	
Share based compensation (Note 7)	-	-	-	-	544	-	-	544	
Net and comprehensive loss	-	-	-	-	-	(385,321)	-	(385,321)	
Non-controlling interest	-	-	-	-	-	-	(922)	(922)	
Balance at May 31, 2020	6,720,555	\$ 5,963,570	\$ -	\$ -	\$ 754,737	\$ (6,982,266)	\$ (922)	\$ (264,881)	

*The share numbers have been adjusted to reflect a consolidation of the Company's share capital on a 25:1 basis effective May 22, 2020 (Note 1).

See accompanying notes to the consolidated financial statements

Orion Nutraceuticals Inc.

Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

	For the year ended May 31, 2020	For the year ended May 31, 2019
OPERATING ACTIVITIES		
Loss for the year	\$ (386,243)	\$ (6,391,172)
Adjustments for non-cash items:		
Shares issued for services	845	226,570
Impairment	-	3,504,691
Gain on settlement of loans payable	(156,854)	(146,250)
Stock based compensation	544	726,993
Net change in non-cash working capital accounts:		
Taxes receivable	(4,329)	(78,870)
Prepaid	2,025	(2,500)
Accounts payable	496,033	377,976
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(47,979)	(1,782,562)
FINANCING ACTIVITIES		
Proceeds from issuance of stock, net of share issuance costs	500,000	3,296,000
Proceeds from loans	44,000	-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	544,000	3,296,000
INVESTING ACTIVITIES		
Investment	-	(1,847,685)
Leasehold improvements	-	(14,298)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-	(1,861,983)
Increase(decrease) in cash in the year	496,021	(348,545)
Cash, beginning	5,272	353,817
CASH, ENDING	\$ 501,293	\$ 5,272

See accompanying notes to the consolidated financial statements

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

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. On May 22, 2020, the Company completed a share consolidation on a 1 for 25 basis. All share capital numbers have been restated to reflect the share consolidation. 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 year ended May 31, 2020, the Company incurred a net loss of \$386,243 (2019 - \$6,391,172) and at May 31, 2020, the Company had a working capital deficiency of \$264,881 (2019 – 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 generating profits from operations. The Company’s ability to meet these criteria may be impacted by the recent COVID-19 disruption of the global economy. 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

The consolidated financial statements of the Company comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

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 and its subsidiary’s functional currency.

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 subsidiary is included in the consolidated financial statements. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

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

Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The preparation of the financial statements also requires management to exercise judgement in the process of applying the accounting policies.

On an on-going basis, management evaluates its estimates and assumptions in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its estimates and assumptions. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Significant judgments

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include stock-based awards and payments, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets.

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

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the determination of whether an acquisition constitutes a business combination or an acquisition of assets.

Impairment of assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs and for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to the profit or loss, except to the extent they reverse gains previously recognized in other comprehensive loss/income.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

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

Financial instruments

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification
Cash	FVTPL
Accounts payable	Amortized cost
Loans payable	Amortized cost

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of loss and comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

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

Financial instruments (cont'd)

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Loss per share

Basic loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted. If the calculation results in an anti-dilutive effect then only basic income or loss per share is presented.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it arises in a business combination, or from items recognized directly in equity or other comprehensive loss/income.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

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

Income taxes (cont'd)

Deferred income tax is provided using the asset and liability method of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instrument issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is credited to the share-based payment reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted, shall be based on the number of equity instruments that eventually vest.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share warrants are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Proceeds received on the issuance of units, consisting of common shares and warrants are allocated to share capital.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of common shares issued in private placements was determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to attached warrants. Any fair value attributed to warrants is recorded to reserves.

New or revised accounting standards

During the year ended May 31, 2020, the Company adopted IFRS 16, Leases which did not have an impact on the Company's financial instruments.

During the year ended May 31, 2020, the Company adopted the Amendments to IFRS 3 which did not have an impact on the Company's financial instruments.

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.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

3. INVESTMENT

FCM Global

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% was to be 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 91,560 common shares with a fair value of \$400,575 in exchange for 13,271 FCM common shares (Note 7).

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

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 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 26,000 shares with a fair value of \$16,250).

To acquire 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 26,000 common shares with a fair value of \$156,000 (Note 7));
- 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 was no longer pursuing the license application and recognized impairment of \$736,806.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

4. ACQUISITION (CONTINUED)

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 (52,000 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

The non-controlling interest of 1% in MedicOasis was held by other minority shareholders.

	\$
Non-controlling interest, May 31, 2019	-
Non-controlling interest in loss of Orion to May 31, 2020	(922)
Total non-controlling interest, May 31, 2020	(922)

5. RELATED PARTY TRANSACTIONS AND BALANCES

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

During the years ended May 31, 2020 and 2019, the Company paid or accrued the following to key management compensation:

	May 31, 2020	May 31, 2019
	\$	\$
Management fees paid or accrued to the former CCO and related companies	-	166,000
Management and consulting fees paid or accrued to a director of the Company	38,336	66,664
Management fees paid or accrued to the former CFO and related companies	37,500	110,000
Management fees paid or accrued to the former CEO and related companies	36,000	132,051
Management and consulting fees paid or accrued to the current CEO and related companies	75,000	-
Management fees paid or accrued to a director of the Company	5,000	-
Share based compensation	12,146	412,732
Total	203,982	887,447

At May 31, 2020, the Company owes \$183,800 (2019 - \$135,697) directly or to companies controlled by key management personnel, which is included in accounts payable. At May 31, 2020, the Company owes \$20,000 directly to key management personnel, which is included in loans payable (Note 6). These amounts are unsecured, non-interest bearing and due on demand.

6. LOANS PAYABLE

The Company has loan balances of \$44,000 payable owing as of May 31, 2020. The loans are unsecured, non-interest bearing and due on demand.

7. SHARE CAPITAL AND RESERVES

Authorized: Unlimited common shares without par value.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

For the year ended May 31, 2020 and 2019

7. SHARE CAPITAL AND RESERVES (CONTINUED)

Issued and Outstanding:

On May 19, 2020, the Company consolidated its common shares on the basis of 1 common share for every 25 common shares. All number of shares and per share amounts have been retroactively restated in these consolidated financial statements to reflect this share consolidation. At May 31, 2020 and 2019, there were 111,168 shares in escrow.

For the year ended May 31, 2020:

On July 24, 2019, the Company issued in-aggregate 18,000 common shares for services with a fair value of \$92,500. The Company reclassified \$92,500 from obligation to issue shares to share capital.

The Company settled \$159,999 owing for services through the issuance of 37,000 common shares and recognized a gain on settlement of debt of \$156,854. The gain was calculated as the difference between the fair value of services provided and the fair value of the shares issued.

On May 28, 2020, the Company closed the first tranche of a non-brokered private placement of 4,727,274 Units ("Unit") of the Company at a price of \$0.11 per Unit for gross proceeds of \$500,000. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant expires on May 28, 2022 with an exercise price of \$0.14. The Company uses the residual value method and as a result no value was assigned to the Warrants.

For the year ended May 31, 2019:

On June 6, 2018, the Company issued 160,000 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 26,000 common shares to acquire 99% of MedicOasis with a fair value of \$16,250 (Note 4).

On June 12, 2018, the Company issued 6,000 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 30,520 common shares to acquire shares of FCM with a fair value of \$19,075 (Note 3).

On June 27, 2018, the Company issued 287,696 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 30,520 common shares to acquire shares of FCM with a fair value of \$190,750 (Note 3).

On August 27, 2018, the Company issued 30,520 common shares to acquire shares of FCM with a fair value of \$190,750 (Note 3).

On September 21, 2018, the Company issued 187,840 common shares for gross proceeds of \$1,174,000. The Company paid finders fees of \$8,800.

On November 30, 2018, the Company issued 67,400 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 1,000 common shares from obligation to issue shares with a fair value of \$6,250.

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

Orion Nutraceuticals Inc.

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7. SHARE CAPITAL AND RESERVES (CONTINUED)

On March 1, 2019, the Company issued 3,000 common shares from obligation to issue shares with a fair value of \$8,750.

On March 1, 2019, the Company issued 26,000 common shares as partial consideration to acquire the last 1% of MedicOasis with a fair value of \$156,000 (Note 4).

On March 29, 2019, the Company issued 21,760 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 \$12.50. 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 26,667 common shares for digital media services with a fair value of \$120,000.

Obligation to issue shares

During the year ended May 31, 2018, the Company agreed to issue 8,000 common shares with a fair value of \$10,000 to a key executive of the Company over a period of two years. As at May 31, 2019, \$6,570 (2018 – \$2,585) of the fair value of the services was recorded as an obligation to issue shares.

During the year ended May 31, 2019, the Company agreed to issue a total of 20,000 common shares with a fair value of \$100,000. During the year ended May 31, 2019, 6,000 common shares were issued with a fair value of \$17,500.

During the year ended May 31, 2020, the Company issued 18,000 common shares for services with a fair value of \$92,500 and recorded an obligation to issue shares of \$845.

Share Purchase Warrants

The following table summarizes warrant activity:

	Number of warrants	Weighted average price \$
Balance, at May 31, 2019	89,160	21.95
Issued	4,727,274	0.14
Balance at May 31, 2020	4,816,434	0.54

Share purchase warrants outstanding at May 31, 2020 is as follows:

Number of warrants outstanding and exercisable	Exercise price \$	Expiry date	Weighted Average Remaining Life (years)
67,400	25.00	November 30, 2020	0.01
21,760	12.50	March 29, 2021	0.01
4,727,274	0.14	May 28, 2022	1.95
4,816,434			1.97

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.

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

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For the year ended May 31, 2020 and 2019

7. SHARE CAPITAL AND RESERVES (CONTINUED)

The following table summarizes options activity:

	Number of options	Weighted average price \$
Balance, at May 31, 2018	-	-
Issued	168,000	6.50
Balance at May 31, 2019	168,000	6.50
Issued	12,000	3.75
Expired	(78,000)	(3.84)
Balance, May 31, 2020	102,000	6.41

Information regarding share purchase warrants outstanding at May 31, 2020 is as follows:

Number of options outstanding and exercisable	Exercise price \$	Expiry date	Weighted Average Remaining Life (years)
22,000	6.25	August 15, 2023	0.69
24,000	6.25	October 5, 2023	0.79
20,000	6.25	October 5, 2020	0.07
6,000	11.00	November 14, 2020	0.03
6,000	10.75	November 20, 2020	0.03
12,000	5.50	February 21, 2021	0.09
12,000	3.75	September 13, 2023	0.39
102,000			2.08

On August 15, 2018, the Company granted 92,000 stock options with an exercise price of \$6.25 per share expiring on August 15, 2023. 83,250 options vested immediately with the remaining 8,750 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 87,000. During the year ended May 31, 2019, the Company recognized share based compensation of \$422,112. During the year ended May 31, 2020, the Company reversed share based compensation of \$17,060 due to the resignation of an executive.

On October 5, 2018, the Company granted 20,000 stock options with an exercise price of \$0.25 per share expiring on October 5, 2020. All of the options vested immediately. The total fair value of the stock options was estimated to be \$66,430 using the Black-Scholes Option Pricing Model with the following assumptions: term of 2 years; expected volatility of 100%; risk-free rate of 2.30%; and expected dividends of zero, which was recognized as share based compensation expense.

On October 5, 2018, the Company granted 32,000 stock options with an exercise price of \$0.25 per share expiring on October 5, 2023. All of the options vested immediately. The total fair value of the stock options was estimated to be \$150,444 using the Black-Scholes Option Pricing Model with the following assumptions: term of 5 years; expected volatility of 100%; risk-free rate of 2.45%; and expected dividends of zero, which was recognized as share based compensation expense.

On November 14, 2018, the Company granted 6,000 stock options with an exercise price of \$0.44 per share expiring on November 14, 2020. All of the options vested immediately. The total fair value of the stock options was estimated to be \$38,553 using the Black-Scholes Option Pricing Model with the following assumptions: term of 2 years; expected volatility of 100%; risk-free rate of 2.24%; and expected dividends of zero, which was recognized as share based compensation expense.

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7. SHARE CAPITAL AND RESERVES (CONTINUED)

On November 20, 2018, the Company granted 6,000 stock options with an exercise price of \$0.43 per share expiring on November 20, 2020. All of the options vested immediately. The total fair value of the stock options was estimated to be \$30,816 using the Black-Scholes Option Pricing Model with the following assumptions: term of 2 years; expected volatility of 100%; risk-free rate of 2.19%; and expected dividends of zero, which was recognized as share based compensation expense.

On February 21, 2019, the Company granted 12,000 stock options with an exercise price of \$5.375 per share expiring on February 21, 2021. 6,000 options vested immediately with the remainder vesting 6 months from the date of grant. The total fair value of the stock options was estimated to be \$24,096 using the Black-Scholes Option Pricing Model with the following assumptions: term of 2 years; expected volatility of 100%; risk-free rate of 1.79%; and expected dividends of zero. During the year ended May 31, 2019, the Company recognized share based compensation of \$18,638. During the year ended May 31, 2020, the Company recognized share based compensation of \$5,458.

On September 13, 2019, the Company granted 12,000 stock options with an exercise price of \$3.75 per share expiring on September 13, 2023. 1/3 of the options vest on the first, second and third anniversary dates, respectively. 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: term of 4 years; expected volatility of 210%; risk-free rate of 1.55%; and expected dividends of zero. During the year ended May 31, 2020, the Company recognized share based compensation of \$12,146.

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.

8. 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.

There were no changes in the Company's approach to capital management during the year. There are no externally imposed capital requirements.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair values

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

Orion Nutraceuticals Inc.

Notes to the Consolidated Financial Statements

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

10. INCOME TAXES

The actual income tax provision differs from the expected amounts calculated by applying the Canadian combined federal and provincial statutory corporate income tax rate to the Company's loss before income tax recovery. The components of these differences are as follows:

	2020	2019
Loss before income tax recovery	\$ (386,243)	\$ (6,391,172)
Corporate tax rate	27%	27%
Income tax recovery at statutory tax rates	(104,000)	(1,726,000)
Increase resulting from:		
Non-deductible expenses and other	-	1,143,000
Effect of share issuance costs not recognized	-	(4,000)
Effect of change in tax rates	-	(2,000)
Change in unrecognized deductible temporary differences	104,000	589,000
Income tax recovery	\$ -	\$ -

The significant components of the Company's deferred tax liabilities and offsetting tax assets are as follows:

	2020	2019
Deferred Tax Asset		
Non-capital losses carry forwards	\$ 744,000	\$ 639,000
Share issuance costs	3,000	4,000
Valuation allowance	(747,000)	(643,000)
	\$ -	\$ -

At May 31, 2020, the Company has non-capital losses of \$2,755,029 that expire between 2038-2040.

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Notes to the Consolidated Financial Statements

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For the year ended May 31, 2020 and 2019

11. SUBSEQUENT EVENTS

Subsequent to May 31, 2020:

- 1) On July 10, 2020, the Company completed a second tranche ("Second Tranche") of its non-brokered private placement through the issuance of 20,000,000 units of the Company at a price of \$0.15 per unit for gross proceeds of \$3,000,000. Each unit consists of one common share of the Company and one transferable Share purchase warrant. Each Warrant entitles the holder thereof to purchase one additional Share at a price of \$0.40 per Share for a period of two years from the date of issuance.

In connection with the Second Tranche, the Company paid finder's fees of \$7,200 cash commission to an arm's length party and issued 1,068,001 finder shares and 1,115,998 finder warrants.

- 2) On July 31, 2020, the Company issued 12,500 common shares to settle \$5,000 of director fees charged in 2020.
- 3) On August 25, 2020, the Company entered into a LOI with 2740162 Ontario Inc. (d/b/a August Therapeutics or "ATI") to acquire 100% shares in ATI with payment of 60 million common shares of the Company. The LOI is also binding the Company to provide ATI with a secured loan or a series of loans, bearing interest at 1% per annum compounded monthly, in the amount of USD\$770,000, of which USD\$20,000 was advanced on June 16, 2020, USD\$250,000 was advanced on July 21, 2020 and USD\$500,000 was advanced on August 31, 2020. The advance shall only be used by ATI to make subscription payment to InStatin Inc. ("InStatin") pursuant to a subscription earn-in agreement entered by ATI and InStatin on August 12, 2020.
- 4) On August 26, 2020, the Company issued 1,510,908 common shares pursuant to warrants exercised for gross proceeds of \$211,527.