Discover Wellness Solutions

Discover Wellness Solutions Inc. (formerly RMMI Corp.)

Condensed Interim Consolidated Financial Statements
For the Three- and Nine-Month Periods Ended September 30, 2021 and 2020
(unaudited)
(In Canadian dollars)

NOTICE TO READER

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

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

The Company's independent auditor has not performed a review of these interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Discover Wellness Solutions Inc. (formerly RMMI Corp.)
Condensed Interim Consolidated Statements of Financial Position
(In Canadian dollars)

	Note	**As at September 30, 2021 (unaudited)**	As at December 31, 2020 (audited)
Assets		$	$
Cash		**54,894**	1,139,442
Other receivables	3	**-**	183,784
Inventory	4	**-**	5,090,994
Loan receivable	5	**500,000**	500,000
Prepaid expenses		**10,000**	543,415
Total Current Assets		**564,894**	7,457,635
Property, plant and equipment	6	**4,388,707**	6,903,564
Intangible asset	7	**-**	750,000
Total Assets		**4,953,601**	15,111,199
Liabilities and Shareholders' Equity			
Accounts payable and accrued liabilities		**633,104**	739,731
Secured notes	8	**1,223,125**	1,223,125
Total Current Liabilities		**1,856,229**	1,962,856
Canada emergency business account ("CEBA") loan	9	**60,000**	60,000
Total Liabilities		**1,916,229**	2,022,856
Shareholders' Equity			
Share capital	10	**15,738,575**	16,071,873
Warrants	10	**1,033,346**	960,346
Contributed surplus		**3,724,541**	3,011,541
Deficit		**(17,459,090)**	(6,955,417)
Total Shareholders' Equity		**3,037,372**	13,088,343
Total Liabilities and Shareholders' Equity		**4,953,601**	15,111,199

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 15)

The accompanying notes are an integral part of these unaudited condensed interim financial statements

Approved on behalf of the Board of Directors:

Signed "Eugene Chen"
Director

Signed "Dave Guebert"
Director

Discover Wellness Solutions Inc. (formerly RMMI Corp.)
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three- and nine-month periods ended September 30, 2021 and 2020
(unaudited)
(In Canadian dollars)

		For the three-month periods ended September 30		For the nine-month periods ended September 30	
	Notes	**2021**	**2020**	**2021**	**2020**
Revenue					
Net revenue		**$2,475**	$-	**$2,475**	$-
Expenses					
Operating expenses		**$24,523**	$-	**$97,532**	$-
General and administration		**221,356**	285,997	**1,326,541**	721,415
Interest and financing costs	8	**37,000**	375,000	**110,000**	793,948
Lease finance expense		**-**	-	**-**	440
Transaction costs		**-**	615,646	**-**	1,020,110
Depreciation	6&7	**4,435**	5,790	**56,115**	35,829
Impairment	6	**7,369,994**	-	**8,394,994**	70,000
Allowance for doubtful accounts	3	**(860)**	-	**137,466**	-
Share based compensation	11	**120,500**	8,000	**383,500**	37,000
Total Expense		**7,779,421**	1,290,433	**10,506,146**	2,678,742
Net Loss and comprehensive loss		**$7,774,473**	$1,290,433	**$10,503,673**	$2,678,742
Net loss per share:					
Basic and diluted (Note 11)		**$0.15**	$0.08	**$0.20**	$0.18

The accompanying notes are an integral part of these unaudited condensed interim financial statements

Discover Wellness Solutions Inc. (formerly RMMI Corp.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited)
(In Canadian dollars, except the number of shares and warrants)

	Note	Number of shares	Number of warrants	Share Capital	Warrants	Contributed surplus	Accumulated deficit	Total shareholders' equity
		#	#	$	$	$	$	$
As at December 31, 2020		52,942,036	4,554,560	16,071,873	960,346	3,011,541	(6,955,417)	13,088,343
Warrant exercise	10	30,000	(30,000)	15,202	(7,500)	-	-	7,702
Warrant extension	10	-	-	(410,000)	80,500	329,500	-	-
Shares issued	10	246,000	-	61,500	-	-	-	61,500
Share based compensation	11	-	-	-	-	383,500	-	383,500
Net loss and comprehensive loss		-	-	-	-	-	(10,503,673)	(10,503,673)
Balance September 30, 2021		**53,218,036**	**4,524,560**	**15,738,575**	**1,033,346**	**3,724,541**	**(17,459,090)**	**3,037,372**

	Number of Shares	Number of Warrants	Share Capital	Subscriptions Received in Advance	Warrants	Contributed Surplus	Deficit	Shareholders' Equity
Balance December 31, 2019	13,577,628	2,015,256	$ 7,031,953	$ -	$ 855,091	$ 1,974,962	$ (3,644,361)	$ 6,217,645
Share based compensation (Note 10)	-	-	-	-	-	37,000	-	37,000
Warrant extension (Note 9)	-	-	(329,500)	-	(322,714)	652,214	-	-
Warrants issued to secured note holders (Note 9)	-	1,500,000	-	-	375,000	-	-	375,000
Warrants issued to financial advisor (Note 9)	-	500,000	-	-	125,000	-	-	125,000
Broker warrant expiry (Note 9)	-	(141,256)	-	-	(253,365)	253,365	-	-
Private placement of common shares (Note 9)	3,349,709	-	753,685	-	-	-	-	753,685
Subscriptions received in advance				281,251				281,251
Common shares issued for services (Note 9)	1,880,000	-	450,900	-	-	-	-	450,900
Share issue costs (Note 9)	-	-	(53,429)	-	-	-	-	(53,429)
Net loss and comprehensive loss	-	-	-	-	-	-	(2,678,742)	(2,678,742)
Balance Sept. 30, 2020	**18,807,337**	**3,874,000**	**$ 7,853,609**	**281,251**	**$ 779,012**	**$ 2,917,541**	**$ (6,323,103)**	**$ 5,508,310**

The accompanying notes are an integral part of these unaudited condensed interim financial statements

Discover Wellness Solutions Inc. (formerly RMMI Corp.)
Condensed Interim Statements of Cash Flows
For the nine-month period ended September 20, 2021 and 2020
(unaudited)
(In Canadian dollars)

	Note	**2021**	2020
Operating activities		**$**	$
Net loss		**(10,503,673)**	$(2,678,742)
Adjustments for items not affecting cash:			
Depreciation and amortization	6&7	**56,115**	35,829
Impairment of non-current assets	6	**3,244,000**	70,000
Share based compensation	11	**383,500**	37,000
Non-cash transaction costs		**-**	652,870
Non-cash interest and financing costs		**-**	375,000
Non-cash general and administration		**-**	68,400
Change in non-cash working capital	16	**5,808,662**	722,542
Net cash used in operating activities		**(1,011,396)**	(717,101)
Investing activities			
Additions to property, plant and equipment	6	**(65,258)**	(191,928)
Disposition of property, plant and equipment	6	**30,000**	
Change in non-cash working capital	16	**(13,096)**	755
Net cash used in investing activities		**(48,354)**	(191,173)
Financing activities			
Proceeds from warrant exercise	10	**7,702**	-
Private placement subscriptions received in advance		**-**	281,251
Gross proceeds from private placement (Note 9)		**-**	753,685
Share issue costs (Note 9)		**-**	(53,429)
Proceeds from CEBA loan		**-**	40,000
Repayment of lease liability		**-**	(20,699)
Change in non-cash working capital	16	**(32,500)**	(7,875)
Net cash (used)/generated in financing activities		**(24,798)**	992,933
Net decrease in cash		**(1,084,548)**	84,659
Cash, beginning of period		**1,139,442**	466,733
Cash, end of period		**54,894**	551,392

The accompanying notes are an integral part of these unaudited condensed interim financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Discover Wellness Solutions Inc. (formerly RMMI Corp.) ("Discover Wellness" or the "Company") (CSE: WLNS) is a licensed producer and processor under the Cannabis Act (Canada). The registered office is located at Suite 500, 707 – 5 Street SW, Calgary, Alberta, T2P 0Y3.

The Company completed a name change from RMMI Corp. to Discover Wellness on December 22, 2020. The Company was incorporated under the Business Corporations Act (Alberta) on February 6, 2018. The Company completed its initial public offering on September 24, 2018 and became a listed entity on the Canadian Securities Exchange ("CSE" or the "Exchange") and now trades under the symbol "WLNS".

On October 11, 2019, the Company received its cannabis cultivation, processing, and medical sales licence from Health Canada under the Canada's Cannabis Act (Canada). On February 8, 2021, the Company received an industrial hemp license from Health Canada. The Company owns a facility in Newell County, Alberta (the "Newell Property") which is undergoing renovation to become a hemp processing facility.

On June 2, 2020, the Company announced an intention to re-focus its operations to hemp and production of high quality and high purity CBD products (the "Strategic Shift"). On June 19, 2020, the Company progressed the Strategic Shift by entering into a hemp purchase agreement with Clearwater CannGrow Ltd. ("Clearwater") whereby the Company would purchase high CBD content hemp from Clearwater. On September 4, 2020, the Company terminated the Clearwater hemp purchase agreement and all other business relationships with Clearwater and its principle shareholder. In the process of entering into a business relationship with Clearwater, the Company had issued common shares to Clearwater and subsequently cancelled all these shares effective the date of original issuance.

On October 14, 2020, the Company entered a strategic alliance and hemp purchase agreement with SynerGenetics Bioscience Inc. ("SG") (the "SG Transaction"), a leading plant genetics technology company focused on the development of novel hemp strains with high-CBD content and other hemp-derived cannabinoid cultivars. In connection with the SG Transaction, the Company entered into a purchase agreement for the purchase of premium high-CBD hemp flower and biomass from SG and entered into a definitive strategic alliance agreement which provides the Company with exclusivity over SG's high-CBD genetics in Canada and assumption of its hemp CBD flower, biomass and concentrate business globally. The Company purchased 250,000 kilograms of high-CBD hemp biomass from SG under the purchase agreement in December 2020. The Company is reviewing its strategic alliance agreement and hemp purchase agreement with SG due to uncertainties related to access of the hemp.

The Company is in a development stage and has not generated any material revenue. Commencement of operations depends on obtaining adequate financing to become operational. During the period ended September 30, 2021, the Company incurred a net loss and comprehensive loss of $10,503,673 (2020 - $2,678,742) and utilized cash of $1,011,396 (2020 - $717,101) in operations. At September 30, 2021, the Company had an accumulated deficit of $17,459,090 (December 31, 2020 - $6,955,417) and its current liabilities exceeded current assets by $1,291,335 (December 31. 2020 – current liabilities exceeded current assets by $5,494,779). There is no guarantee that the Company will be successful in raising capital to fund operations and development.

The Company's secured noteholders had agreed to a restructuring of the secured notes in 2020 whereby the principal amount of the secured notes plus all accrued and unpaid interest and fees at May 31, 2020 were converted into a $1,500,000 principal amount loan repayable over a one-year period starting October 2020. The noteholders further agreed to changes in the repayment schedule while keeping the previously agreed maturity date of October 31, 2021 (see Subsequent Events note).

Management is of the opinion that in the future, sufficient working capital can be obtained from external financing and operating cash flow to settle the Company's liabilities and commitments as they become due, although there is a risk that funding will not be available on a timely basis or on terms acceptable to the Company. The Company has incurred operating losses since inception indicating the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. The Company's strategy in 2021 and 2022 to continue as a going concern include:

- maintaining the low general and administrative cost structure that was instituted in 2020 when staffing was reduced and the head office lease was terminated,
- pursue strategic transactions to enhance shareholder value and liquidity,
- collect the loan receivable from SG; and
- continue to assess debt and equity capital markets for fund raising opportunities.

The COVID-19 pandemic and measures adopted by governments to mitigate the pandemic's spread have not significantly impacted Discover Wellness. There is still uncertainty over how the outbreak will impact the Company's business in the future.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the expenses and the statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

These unaudited condensed interim financial statements ("interim financial statements") have been prepared in accordance with IAS 34 Interim Financial Reporting. These interim consolidated financial statements contain disclosures that are supplemental to the Company's annual audited consolidated financial statements, following the same accounting policies as the audited consolidated financial statements of the Company as of December 31, 2020. These interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2020.

These interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

These interim financial statements were approved and authorized for issuance by the Board of Directors on November 26, 2021.

(In Canadian dollars)

b) Use of judgments and estimates

In preparing these interim financial statements, management has made judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities and expenses. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

c) Significant accounting policies

Except for the revenue recognition policy summarized below, please refer to the December 31, 2020 audited financial statements and accompanying notes for a description of the significant accounting policies used by the Company. The policies set out in the Company's December 31, 2020 financial statements were consistently applied to these unaudited interim financial statements.

Revenue recognition

The Company's accounting policy for revenue recognition under IFRS 15 is to follow a five-step model to determine the amount and timing of revenue to be recognized:

1. Identifying the contract with a customer;
2. Identifying the performance obligation(s) in the contract;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligation(s) in the contract; and
5. Recognizing revenue when or as the Company or the customer satisfies the performance obligation(s).

Revenue from the sale of hemp is recognized at a point in time when the performance obligations of the sales contract has been completed, the transaction price can be reasonably determined and collection is reasonably assured.

Payment is due on standard commercial terms.

Net revenue as presented in the consolidated statements of net loss and comprehensive loss, represents revenue from the sale of goods less applicable excise taxes, expected price discounts, and allowances for customer returns.

3. OTHER RECEIVABLES

Other receivables are comprised of:

	September 30, 2021	December 31, 2020
Vendor deposit refund	$-	$121,311
Goods and service tax ("GST") receivable	-	62,473
Total	**$-**	$183,784

In the nine-months ended September 30, 2021, Discover Wellness recorded an allowance for doubtful accounts of $42,832 related to the vendor deposit refund and $94,634 related to GST receivable for a total of $137,466 (three and nine months ended September 30, 2020 - $NIL). The vendor did not make the last two payments to Discover Wellness and indicated to Discover Wellness that they were seeking new financing which would allow them to complete the payments to the Company. Due to uncertainty related to the vendor's ability to obtain new financing, Discover Wellness recorded an allowance for doubtful accounts on the full balance outstanding. Discover Wellness also recorded an allowance for doubtful accounts related to GST receivable due to uncertainty related to its ability to collect GST input tax credits paid to third parties.

4. INVENTORY

In December 2020, Discover Wellness took possession of 250,000 kilograms of high-CBD biomass related to the hemp purchase agreement with SG. The inventory was purchased from SG with 13,250,000 common shares and broker fees including a cash amount and 3,484,000 common shares. Management determined that the fair value of inventory could not be measured reliably therefore the fair value of the common shares were used to value the inventory at $5,090,994 (also the balance at December 31, 2020). In early 2021, the Company purchased shipping containers and capitalized $60,000 of consumables inventory.

As previously disclosed, there is a commercial dispute between SG, from which the Company purchased the hemp, and SG's contract farmer that cultivated the hemp. The contract farmer is storing the hemp on the Company's behalf. The Company recently attempted to access a portion of the hemp for sales to third parties and the contract farmer attempted to include the Company in its dispute with SG. The Company was not able to access the hemp. The Company has requested that SG resolve its commercial dispute with the contract farmer as quickly as possible but at this time, there has been no material progress. Due to the Company's inability to access the hemp, the Company has recorded an impairment allowance of $5,150,994 representing the full value of the hemp and consumables inventory. SG and the contract farmer continue to discuss their commercial dispute. Discover Wellness has offered to participate in three-party discussions with the objective of protecting its hemp inventory and obtaining access to the hemp. These discussions may result in a reversal of some or all of the impairment allowance, a change in the amount or value of the hemp available to Discover Wellness, a change in the consideration paid to SG and/or other results.

5. LOAN RECEIVABLE

To assist with fulfillment of the Hemp Purchase Agreement with SG, in December 2020, Discover Wellness provided SG with a $500,000 loan. The loan is secured by 2,000,000 CBD hemp seeds, is due December 31, 2021 with early repayment by SG available without penalty, interest free for the first six months and 8% annual interest thereafter. Discover Wellness has secured the SG loan with 2,000,000 hemp seeds and believes that collection or full recovery is likely.

(In Canadian dollars)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	Furniture & equipment	Buildings & improvements	Land	**Total**
Cost				
At December 31, 2020	$188,712	$6,513,164	$259,000	$6,960,876
Impairment	(40,000)	(2,500,000)	-	(2,540,000)
Additions	-	65,258	-	65,258
Dispositions	(30,000)	-	-	(30,000)
At September 30, 2021	**$118,712**	**4,078,422**	**259,000**	**$4,456,134**
Accumulated depreciation				
At December 31, 2020	$23,426	$33,886	$-	$57,312
Depreciation for the period	10,115	-	-	10,115
At September 30, 2021	**$33,541**	**$33,886**	**$-**	**$67,427**
Net book value				
At December 31, 2020	$165,286	$6,479,278	$259,000	$6,903,564
At September 30, 2021	**$85,171**	**$4,044,536**	**$259,000**	**$4,388,707**

The Company owns land and buildings in Newell County, Alberta. For the period ended September 30, 2021, the Company incurred $65,258 (2020 – $54,529) of costs related to the retrofitting of the property. For both periods, expenses primarily relate to construction. The buildings and improvements are not considered available for use (construction in progress) and are not subject to depreciation.

During the period ended September 30, 2021, the Company did not purchase any furniture and equipment (2020 - $nil). During the period ended September 30, 2021, the Company sold all of the cultivation equipment that it had previously purchased for proceeds of $30,000.

At September 30, 2021, due to indicators of impairment, Discover Wellness assessed impairment on the Company's property, plant and equipment. This assessment lead to cannabis cultivation equipment being impaired by $40,000 to reflect estimated fair value. Buildings and improvements have been impaired $2,500,000 to reflect estimated fair value. There is a high degree of uncertainty related to the fair value of cannabis equipment and building and improvements due to the highly specialized nature of these assets, the location of the Company's land and building and the lack of available market value information to assess fair value.

7. INTANGIBLE ASSET

Discover Wellness's intangible asset was acquired as part of the SG strategic alliance and represents the value of perpetual exclusive access to SG CBD hemp seeds and genetics with exclusive rights to distribution.

The intangible asset was recognized upon execution of the agreement. In exchange for the intangible asset, Discover Wellness issued 3,000,000 common shares valued at $0.25 per share equaling $750,000 which was the fair value at the acquisition date.

Discover Wellness had assigned a 10-year life to the intangible asset and is being amortized using the straight-line method. $46,000 was recognized as amortization during the six-month period ended June 30, 2021. As at September 30, 2021, due to the continuing commercial dispute between SG and its contract farmer for the 2020 hemp cultivation, the inability for the Company to access its hemp, and the Company's current assessment of the future value of the SG strategic alliance, the Company has impaired the full remaining balance of intangible assets of $704,000.

There was no intangible asset in 2020.

8. SECURED NOTES

On September 13, 2019, the Company issued secured notes totaling $1,000,000 to fund working capital costs. Certain members of RMMI's executives and board of directors participated in the financing (Note 13). The secured notes carry a 12% per annum interest rate, with an original maturity date of December 31, 2019 and are secured by a fixed charge on all present and after acquired property of the Company until the loan is repaid in full. A 5% facility fee was payable at the original maturity. The secured notes were extended from their original maturity date of December 31, 2019 and 5% extension fees accrue monthly.

On June 30, 2020, the secured note lenders agreed to a restructuring and repayment proposal. The principal amount of the loan plus all accrued and unpaid interest and fees converted into a $1,500,000 new loan. The new loan balance earns 12% annual interest starting October 1, 2020 and will be repaid monthly based on a standard mortgage repayment schedule with a one-year amortization. In October 2020 and January 2021, the noteholders agreed to further changes in the repayment schedule while maintaining the maturity of the secured notes as October 31, 2021. Security on the new loan remains the same as the original secured notes. As part of the restructuring and repayment proposal, the Company issued 1,500,000 common share purchase warrants on July 13, 2020 with a $0.255 exercise price and term expiring June 30, 2023 to the secured note lenders. The Black-Scholes option model was used in calculating the fair value of the warrants issued using a nil dividend yield, an interest rate of 0.25% and an expected volatility of 248%. The fair value of these warrants totaled $375,000 and was recognized the profit and loss with a corresponding increase to shareholders' equity.

On December 11, 2020, some secured note holders, who opted to participate in the private placement, had their secure note principal amount totaling $212,500 and accrued interest totaling $4,960 utilized for issuance of common shares to them.

On December 18, 2020, the Company repaid $64,375 principal amount of the secured notes pro-rata to each note holder.

January 29, 2021, $61,500 of accrued extension fees were exchanged for 246,000 common shares issued to certain secured note holders who elected to receive a portion of their extension fees in Discover Wellness common shares.

During the three- and nine-month periods ended September 30, 2021, interest and fees totaled $37,000 and $110,000, respectively, and was recognized in the profit or loss (2020 - $375,000 and $793,948, respectively). The accrued interest and fees included in the accounts payable and accrued liabilities as at September 30, 2021 totaled $246,994 (December 31, 2020 - $198,494).

(In Canadian dollars)

9. CANADA EMERGENCY BUSINESS ACCOUNT ("CEBA") LOAN

On April 16, 2020, the Company received a $40,000 CEBA loan from the Government of Canada. On December 21, 2020, the Company received an additional $20,000 CEBA loan. Both loans are unsecured and interest-free until December 31, 2022, at which time the remaining balances will convert to 3-year term loans at an interest rate of 5% per annum. If the balance of the loans is repaid on or before December 31, 2022, there will be loan forgiveness of up to 33% or $20,000.

10. SHARE AND WARRANT CAPITAL

Authorized: an unlimited number of voting common shares, no par value
an unlimited number of preferred shares, no par value

Shares and warrants issued:

	Common shares		Warrants		
	Number of shares	**Amount**	**Number of warrants**	**Number of broker warrants**	**Amount**
Balance December 31, 2020	**52,942,036**	**$ 16,071,873**	**3,874,000**	**680,560**	**$ 960,346**
Warrant exercise *(i)*	30,000	15,202	(30,000)	-	(7,500)
Warrant extension *(ii)*	-	(410,000)	-	-	80,500
Shares issued *(iii)*	246,000	61,500	-	-	-
Balance September 30, 2021	**53,218,036**	**$ 15,738,575**	**3,844,000**	**680,560**	**$ 1,033,346**

	Common shares		Warrants		
	Number of shares	**Amount**	**Number of warrants**	**Number of broker warrants**	**Amount**
Balance December 31, 2019	**13,577,628**	**$ 7,031,953**	**1,874,000**	**141,256**	**$ 855,091**
Warrant extension *(iv)*	-	(329,500)	-	-	(322,714)
Broker warrants expired *(v)*	-	-	-	(141,256)	(253,365)
Warrants issued *(vi)*	-	-	2,000,000	-	500,000
Private placement *(vii)*	3,349,709	753,685	-	-	-
Share issue costs *(vii)*	-	(53,429)	-	-	-
Financial advisory fee *(viii)*	1,700,000	382,500	-	-	-
Fee for service *(ix)*	180,000	68,400	-	-	-
Balance Sept. 30, 2020	**18,807,337**	**$ 7,853,609**	**3,874,000**	**-**	**$ 779,012**

(i) In the nine months ended September 30, 2021, 30,000 warrants were exercised for gross proceeds of $7,702. The original fair market value of the exercised warrants of $7,500 was transferred from warrant capital to share capital.

(ii) On March 17, 2021, the Company extended 1,874,000 warrants with an exercise price of $1.25, scheduled to expire on June 30, 2021. No other terms of the warrants were changed. The Black-Scholes option model was used in calculating the fair value of the warrant expiry extension using

a nil dividend yield, an interest rate of 0.28% and expected volatility of 179%. The fair market value of the warrant extension was $410,000. The fair value of the warrant extension was recorded to share issue costs as these warrants are related to warrants issued on the exercise of previously issued warrants. The fair value of these warrants that were previously recorded on initial recognition totalled $329,500 was derecognized and credited to Contributed Surplus.

(iii) On January 29, 2021, 246,000 shares were issued to secured note holders as a fee for changes to the note repayment schedule from October 2020. The fair value of the shares issued of $61,500 was based on the value of the secured notes amendment fee agreed to between the Company and the secured note holders.

(iv) On June 2, 2020, the Company extended 1,874,000 warrants scheduled to expire on June 30, 2020 until June 30, 2021. No other terms of the warrants were changed. The Black-Scholes option model was used in calculating the fair value of the warrant expiry extension using a nil dividend yield, an interest rate of 0.27% and an expected volatility of 243%. The fair market value of the warrant extension was $329,500. The fair value of the warrants extension was recorded to share issue costs as these warrants are related to warrants issued on the exercise of previously issued warrants. The fair value of these warrants that were previously recorded upon initial recognition totalling $652,214 was derecognized and credited to Contributed Surplus.

(v) In the nine months ended September 30, 2020, 141,256 broker warrants expired. The fair value of the warrants at time of grant of $253,365 was transferred from warrant capital to contributed surplus.

(vi) On July 13, 2020, 1,500,000 warrants were issued to secured note holders in partial compensation for their acceptance of a restructuring and repayment proposal and 500,000 warrants were issued to the Company's financial advisor. The secure note holders' warrants have a $0.255 exercise price and expire June 30, 2023. The financial advisor warrants have a $0.26 exercise price and expire July 13, 2023. The Black-Scholes option model was used in calculating the fair value of the issued warrants using a nil dividend yield, an interest rate of 0.25% and an expected volatility of 248%. The fair market value of the secured note restructuring warrants was $375,000 and recognized in interest and financing costs. The fair value of the financial advisory warrants was $125,000 and recorded in transaction costs. $500,000 was credited to Contributed Surplus.

(vii) On August 28, 2020, the Company closed on a private placement of common shares and issued 3,349,709 common shares at $0.225 per share for gross proceeds of $753,685. The Company paid an 8% cash finders' fee totalling $53,429 to certain third-party finders.

(viii) In Q3 2020, the Company issued 1,700,000 common shares to a financial advisor for financial advisory services. The fair value of this non-cash compensation was determined based on the fair value of the common shares issued. The fair value of the common shares was determined with be $0.225 per common share which was the price of an announced private placement of common shares by the Company. $382,500 was recorded as a transaction cost.

(ix) The Company entered into a Capital Markets Advisory and Management Services Agreement ("Advisory and Services Agreement") effective June 1, 2020 with Eugene Chen Professional Corporation, a corporation controlled by a director of the Company. The Advisory and Services Agreement calls for monthly advisory fee of 45,000 DWS common shares until its expiration on December 31, 2020. The term of the Advisory and Services Agreement can be terminated before December 31, 2020 with mutual consent of both parties. This share-based transaction with a corporation controlled by a director of the Company is measured with reference to the fair value of the common shares granted. The fair value of the common shares was based on DWS's share price at the date of each issuance of DWS's common shares.

(In Canadian dollars)

The following summarizes warrant transactions for the nine months ended September 30, 2021 and 2020:

	2021		**2020**	
	Number of warrants	**Weighted average price**	**Number of warrants**	**Weighted average price**
Beginning of year	4,554,560	$0.66	2,015,256	$1.34
Broker warrants expired	-	-	(141,256)	2.50
Warrants issued	-	-	2,000,000	0.26
Warrants exercised	(30,000)	$0.26	-	-
Balance September 30	**4,524,560**	**$0.66**	3,874,000	$0.74

Outstanding warrants on September 30, 2021 were as follows:

	Warrants	**Weighted average prices**	**Weighted average years to expiry**
Broker warrants	680,560	$0.20	0.6
Warrants	3,844,000	$0.74	1.2
Balance September 30, 2021	**4,524,560**	**$0.66**	**1.1**

Outstanding warrants at September 30, 2020 were as follows:

	Warrants	**Weighted average prices**	**Weighted average years to expiry**
Warrants	1,874,000	$1.25	0.7
Secured note holder warrants	1,500,000	$0.255	2.7
Financial advisor warrants	500,000	$0.26	2.8
Balance Sept. 30, 2020	**3,874,000**	**$0.74**	**1.8**

Escrowed securities:

Pursuant to an escrow agreement dated June 24, 2018, 1,826,668 common shares of the Company were deposited into escrow with respect to the Company's initial public offering. In addition, 216,668 warrants at $1.25 per share expiring September 30, 2020 and 985,000 stock options with exercise prices of $0.25 and $1.00 per share expiring March 31, 2022 and March 5, 2023 respectively, were also subject to the escrow agreement. Under the escrow agreement, 10% of the escrowed common shares were released from escrow on September 24, 2018, the date of closing of the Company's initial public offering, and 15% will be released every six months thereafter over a period of 36 months. As of September 30, 2021, NIL (September 30, 2020 - 548,002) common shares remain in escrow.

(In Canadian dollars)

11. SHARE BASED COMPENSATION

At September 30, 2021, the Company had the following equity settled share based compensation plans.

a) Stock options

The following summarizes information about stock options outstanding on September 30, 2021 and 2020:

	2021		2020	
	Number of options	**Weighted average price**	**Number of options**	**Weighted average price**
Beginning of year	2,087,500	$0.42	1,030,000	$0.61
Options forfeited and expired	(12,500)	$1.00	(25,000)	$1.56
Options issued	405,000	$0.32	-	-
End of the period	**2,480,000**	**$0.40**	**1,005,000**	**$0.59**

The following table summarizes information about the share options outstanding and exercisable on September 30, 2021:

Options outstanding				Options exercisable	
Exercise price	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$0.25	550,000	0.5	$0.25	550,000	$0.25
$1.00	430,000	1.4	$1.00	477,500	$1.00
$0.26	1,200,000	9.0	$0.26	300,000	$0.26
$0.36	200,000	4.2	$0.36	50,000	$0.36
$0.49	100,000	9.4	$0.49	25,000	$0.49
-	2,480,000	5.4	$0.40	1,402,500	$0.52

The following table summarizes information about the share options outstanding and exercisable on September 30, 2020:

Options outstanding				Options exercisable	
Exercise price	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$0.25	550,000	1.5	$0.25	550,000	$0.25
$1.00	455,000	2.4	$1.00	397,500	$1.00
-	1,005,000	1.9	$0.59	947,500	$0.54

On January 6, 2021, the Company issued 305,000 options to certain directors and employees (nine months ended September 30, 2020 – NIL options). The stock options issued vest over four tranches with the first vesting immediately and the remaining three tranches vesting equally over the following three years, exercisable at $0.26 over 10 years.

(In Canadian dollars)

On March 17, 2021, the Company issued 100,000 options to a director (nine months ended September 30, 2020 – NIL options). The stock options issued vest over four tranches with the first vesting immediately and the remaining three tranches vesting equally over the following three years, exercisable at $0.49 over 10 years.

Fair value inputs	**2021 options granted**	
	January 6	**March 17**
Risk free annual interest rate	0.75%	1.58%
Expected annual dividend yield	0%	0%
Expected stock price volatility	228%	179%
Estimated forfeiture rate	10%	10%

The fair value of the stock option plans is measured using the Black-Scholes formula. Expected volatility is based on historical volatility of the Company's share price, over a period commensurate with the expected term.

b) Restricted share units ("RSUs")

The Company issued RSUs in 2021 under its equity incentive plan. The following summarizes information about RSUs outstanding on September 30, 2021:

	Number of RSUs	**Weighted average issue price**
Beginning of year	-	$-
Issued	1,100,000	$0.45
End of the period	**1,100,000**	**$0.45**

The following table summarizes vesting information about RSUs that were outstanding at September 30, 2021

Weighted average issue price	**Expiry date**	**Outstanding**	**Vested**
$0.45	January 6, 2021 – January 15, 2024	1,000,000	-
$0.49	March 17, 2021 – January 15, 2024	100,000	-
		1,100,000	-

On January 6, 2021, the Company issued 1,000,000 RSUs to certain directors and employees (nine months ended September 30, 2020 – NIL RSUs). The RSUs issued vest over three tranches equally over the following three years.

On March 17, 2021, the Company issued 100,000 RSUs to a director (nine months ended September 30, 2020 – NIL RSUs). The RSUs issued vest over three tranches vesting equally over the following three years.

The fair value of the RSUs was based on the Company's share price on the date of issuance. The fair value is recognized as share-based compensation expense over the vesting period of the RSUs.

The share-based compensation expense recognized during the three- and nine-months ended September 30, 2021 was $120,500 and $383,500 (three- and nine-months ended September 30, 2020 - $8,000 and $37,000, respectively) including $50,500 and $123,500, respectively, for options and $76,000 and $139,500, respectively, for RSUs. During the nine months ended September 30, 2021, NIL options were exercised (Nine month ended September 30, 2020 – NIL options exercised).

(In Canadian dollars)

12. NET LOSS PER SHARE

The calculation of basic and diluted loss per share for the three- and nine-months ended September 30, 2021 was based on the loss attributable to common shareholders of $7,774,473 and $10,503,673, respectively (three- and nine-months ended September 30, 2020 – $1,290,433 and $2,678,742, respectively) and the weighted average number of common shares outstanding of 53,218,036 and 53,300,145, respectively (three- and nine-months ended September 30, 2020 – 16,471,002 and 14,549,126, respectively).

Share options and warrants were anti-dilutive during the three- and nine-months ended September 30, 2021 and 2020.

13. RELATED PARTY TRANSACTIONS

Related party transactions are incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties.

The following is a summary of transactions with directors and officers, and companies controlled by directors of the Company. The amounts are measured at the exchange amount which is the fair value of the transactions.

a) Transactions with related parties

Nine months ended September 30:	**2021**	**2020**
Legal fees paid or payable to a firm at which a director of the Company is a partner:	$54,680	$66,658

At September 30, 2021, $10,868 (September 30, 2020 - $120,173) was owing to the law firm at which a director of the Company is a partner and $23,438 (September 30, 2020 – NIL) was owing to the Interim-CEO and CFO for wages. This amount is recorded on the Statement of Financial Position in accounts payable and accrued liabilities and will be paid in the normal course of business. On the Statement of loss, the cost is recorded in general and administrative expenses.

b) Secured notes

Several officers and directors of the Company participated in the Company's secured note financing and restructuring and repayment proposal. These related parties are owed their proportionate share of the fees and interest and these amounts are recorded in accounts payable and accrued liabilities.

c) SG strategic alliance

On October 14, 2020, the Company entered the SG Transaction at which time SG became a related party. In 2020, the Company issued a total of 16,250,000 common shares for the strategic partnership and inventory (Notes 4 and 7). Further, Discover Wellness has provided SG with a $500,000 loan (Note 5).

14. CAPITAL RISK MANAGEMENT

The Company's objectives when managing its capital are to safeguard its ability to continue as a going concern, to meet its capital expenditures for its continued operations, and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, or acquire or dispose of assets. As at September 30, 2021, the Company has $1,223,125 of secured notes outstanding (Note 8). The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers its shareholder's equity as capital which, as at September 30, 2021 is $3,037,372 (December 31, 2020 $13,088,343).

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

At September 30, 2021 the Company's financial instruments consist of cash, other receivables, loan receivable, accounts payable and accrued liabilities, secured notes and the CEBA loan.

The fair values of the Company's financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

Risk management

Market risk is the risk that the fair value of future cash flows of a financial asset or a financial liability will fluctuate because of changes in market prices. Discover Wellness's market risk is comprised of credit risk, liquidity risk, interest rate risk, and foreign currency risk.

Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfil its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents, other receivables, and loan receivable. All of the Company's cash was held at one financial institution on September 30, 2021, which is a Canadian Chartered Bank. Management believes that the risk of loss is minimal, but the Company is subject to concentration of credit risk.

An allowance for doubtful accounts was recognized for the full amount of other receivables at September 30, 2021 (Note 3) (December 31, 2020 – GST receivable of $62,784).

The loan receivable is with SG with whom Discover Wellness has a Strategic Alliance and Purchase agreement with. Discover Wellness has secured the SG loan with 2,000,000 hemp seeds and believes that collection or full recovery is likely.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations with cash. As at September 30, 2021, the Company's financial liabilities consist of accounts payable and accrued liabilities, secured notes and CEBA loan. The Company manages its liquidity risk by reviewing its capital requirements on an ongoing basis. There have been no changes in the Company's strategy with respect to credit/liquidity risk in the period (See Note 1).

At September 30, 2021, all cash outflows relating to financial liabilities were repayable within a year totaling $1,916,229, with the exception of the $60,000 CEBA loan which is due December 31, 2022 (December 31, 2020 - $1,962,856 within one year, CEBA loan $60,000 due December 31, 2022).

Interest risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Company is currently not exposed to interest rate risk as its debt is at a fixed interest rate.

Currency risk

The operating results and financial position of the Company are reported in Canadian dollars. The Company currently does not have any operating activities in currencies other than Canadian dollars.

On December 30, 2020, the Company was owed US$88,944 from a vendor for a deposit refund. The effect of a $0.01 increase or decrease in US dollars against the Canadian dollar on receivables would result in an increase or decrease of $889 received by the Company. An allowance for doubtful accounts was recognized at September 30, 2021 for the full amount of this vendor receivable.

At September 30, 2021, the Company had no hedging agreements in place with respect to foreign exchange rates. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

15. COMMITMENTS AND CONTINGENCIES

Purchase of property, plant and equipment

The Company places purchase orders with suppliers in the normal course of business for acquisition of property, plant and equipment related to its Newell facility that had not been supplied or delivered. At September 30, 2021, $nil purchase commitments remain outstanding (September 30, 2020 – commitments of $28,000).

SG hemp purchase and strategic alliance

In connection with the SG Transaction, the Company entered into a purchase agreement for premium high-CBD hemp flower and biomass from SG and entered into a definitive strategic alliance agreement which provides Discover Wellness with exclusivity over SG's high-CBD genetics in Canada and assumption of its hemp CBD flower, biomass and concentrate business globally. In consideration for the strategic alliance, Discover Wellness issued 3,000,000 Common Shares and will pay SG a cash royalty on the sale of hemp seeds in Canada. As of September 30, 2021, Discover Wellness has taken possession of 250,000 kilograms of high-CBD biomass, issued 12,000,000 Common Shares to SG and completed the strategic alliance agreement with SG. As the amount payable to SG upon subsequent sale of product by Discover Wellness to a third party calculated based on the type of product sold and CBD content of the purchased biomass and is essentially a royalty payment to SG upon eventual final sale hence the Company has no liability for this amount currently. The amount of the cash royalty to be paid varies depending on whether the hemp is processed by the Company, processed by a third party or sold unprocessed. There are uncertainties relating to the amount and timing of the outflow of this payment, especially since the Company is considering all three sales options.

As previously disclosed, there is a commercial dispute between SG, from which the Company purchased the hemp, and SG's contract farmer that cultivated the hemp. The contract farmer is storing the hemp on the Company's behalf. The Company recently attempted to access a portion of the hemp for sales to third parties and the contract farmer attempted to include the Company in its dispute with SG. The Company was not able to access the hemp. The Company has requested that SG resolve its commercial dispute with the contract farmer as quickly as possible but at this time, there has been no material progress. SG and the contract farmer continue to discuss their commercial dispute. Discover Wellness has offered to participate in three-party discussions with the objective of protecting its hemp inventory and obtaining access to the hemp. These discussions may result in a reversal of some or all of the impairment allowance, a change in the amount or value of the hemp available to Discover Wellness, a change in the consideration paid to SG and/or other results.

Contingencies

As of September 30, 2021, the Company was a defendant in a civil claim brought by a former employee and a business related to the former employee for severance obligations and unpaid services. Based on legal advice, the Company believes that the claim is without merit and intends to vigorously defend itself in each of these claims. The Company believes that it will be successful in defending against these claims and therefore has not recorded any provisions related to these matters.

(In Canadian dollars)

16. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital for the nine months ended September 30 comprised of:

Source/(use) of cash:	**2021**	2020
Other receivables	**$183,784**	$-
Prepaid expenses and other current assets	**-**	(294,421)
Reclassification of interest and fees related to Secured loan restructuring	**-**	500,000
Reclassification of deposits to other receivables	**-**	203,345
Inventory	**5,090,994**	-
Prepaid expenses	**533,415**	-
Accounts payable and accrued liabilities	**(45,127)**	306,498
Net change in non-cash working capital	**$5,763,066**	$715,422
Operating	**$5,808,662**	$722,542
Investing	**(13,096)**	755
Financing	**(32,500)**	(7,875)
Total	**($5,763,066)**	$715,422

17. SUBSEQUENT EVENTS

In November 2021, the Company and its secured noteholders agreed to a further extension of the secured notes. Through a negotiation with the third-party noteholders, the Secured Notes have been extended to October 31, 2022. Terms during the extension period includes an annual accrued interest rate of 15% and a conversion option to convert the outstanding balance on the Secured Notes into Discover Wellness common shares at $0.10 per common share. The related-party noteholders have accepted the terms negotiated with the third-party noteholders. The Secured Notes remain secured against the Company’s Newell property and early repayment by the Company is allowed without penalty.