Sativa Group Plc

Annual Report and Accounts

for the Year Ended 31 December 2019

Registration number: 11118594

Contents

Welcome to Sativa Group Plc

Sativa Group Plc (AQSE: SATI), (or "Sativa" or "the Company" or "the Group"), the UK's leading quoted CBD wellness and medicinal cannabis company, is pleased to announce its audited results from the year ended 31 December 2019.

Highlights:

- Revenue increased by greater than five-fold from £0.26m to £1.45 million in the year to 31 December 2019, representing an increase of 190% on the annualised run rate of the revenue reported in H2 2018.
- Gross profit margin improved from 42% to 52%, due to a decrease in the cost of CBD extract and production efficiencies, within market expectations.
- The Group continues to expand its range of products, with the launch of the flagship Goodbody Botanicals brand, targeted at high-street pharmacies, grocers and independent pharmacies, and Goodbody Wellness, the premium health and beauty range.
- The Tessellate Collective business was launched in Q2, opening up a new revenue stream as the direct selling channel.
- Distribution partnership agreement signed with SHS Retail & Distribution a leader in distribution to high street grocers and pharmacies.
- Sativa Cultivation & Extraction awarded a Home Office Controlled Drug licence, to fulfil its research partnership agreement with King's College London.
- Henry Lees-Buckley appointed as Chief Executive Officer in August. Henry was previously CEO of Uni-Select [TSX:UNS], a Canadian TSX quoted company.
- Clive Page OBE, Professor of Pharmacology at King's College London, appointed to Scientific Advisory Board.
- PhytoVista Laboratories, increasingly recognised as a leading UK analytical laboratory for the testing of cannabinoids and terpenes, completed it's 3,000th cumulative sample test in December, 90% of which was for external CBD and food manufacturers.
- The Company completed a £1.38 million (before costs) share placement and subscription in December, the majority of which came from existing shareholders.

Post year end:

- On 2 June 2020, the Group signed a Bid Conduct Agreement and plan to announce the receipt of a firm offer from Stillcanna Inc. on 3 June 2020 to implement a UK Scheme of Arrangement. The transaction is analogous to a reverse takeover in that the Company's shareholders will acquire a controlling interest of approximately 65% of all Stillcanna shares following completion, on a fully diluted basis.
- Goodbody Botanicals signed a distribution agreement with Alliance Healthcare, the leader in distribution to independent pharmacies across the UK, and secured its first product listing with WH Smith Travel via the SHS agreement.
- Goodbody Botanicals commenced production of cannabigerol (CBG) and alcohol-based hand sanitisers in response to the increased need for hand sanitation as a result of COVID-19.
- PhytoVista Laboratories completed its 4,000th sample test in March 2020.

Advisers

Corporate Adviser
Peterhouse Capital Ltd
80 Cheapside
London
EC2V 6EE

Registrar
Neville Registrars Limited
Neville House
Steelpark Road
Halesowen
B62 8HD

Auditor
RSM UK Audit LLP
Suite A, 7th Floor, City Gate East
Tollhouse Hill
Nottingham
NG1 5FS

Company secretary
Anne Tew, FCCA, ACIS

Registered office

The Blue Building
Stubbs Lane
Beckington
Frome
BA11 6TE

Chairman's Statement

Overview
The Group, in its first full year of trading, made substantial progress across all five of its business streams and activities, reporting marked financial advances including in overall revenues and gross margin, and maintaining its position as the UK's leading quoted CBD and medicinal cannabis business. Its continued investment in generating organic growth remains early stage but is bearing fruit.

The Group's own successes are coinciding with the early signs of what the Board expects will be a favourable sea-change in the UK's attitude to CBD and medicinal cannabis. In January 2020 the NHS licensed the prescription of a CBD medicine for the treatment of epilepsy in England, a major industry breakthrough which is expected to benefit more than 2,000 child patients in the near-term.

The Group's product range continued to expand, with the two distinct retail own-brands of Goodbody Botanicals and Goodbody Wellness being sold in parallel with other guest brands through the Group's online, wholesale, retail and direct-sell distribution channels.

In the final quarter the Group announced a distribution agreement with SHS Sales & Marketing which has already borne fruit in 2020, with product on-shelf across the WH Smith Travel retail chain and also signed a distribution agreement with the Alliance Healthcare network. The Board believes that partnering with SHS will lead to the Group penetrating additional high-volume high street chains and grocers, along with superstores and forecourts.

Sativa now holds a rare Home Office Controlled Drug licence for the cultivation, production, possession and supply of cannabis, enabling it to fulfil its research partnership agreement with King's College London to research the impact of cannabinoids on inflammation and respiratory conditions.

During 2019 the Company transitioned from being an investment vehicle to a fully-fledged trading company, reflected in the name change from Sativa Investments Plc to Sativa Group Plc. This reflects the focus on wholly-owned UK operations.

Henry Lees-Buckley was appointed as Chief Executive Officer in August 2019. Henry was previously CEO of Uni-Select [TSX: UNS], a Canadian TSX quoted company with US$1.7 billion of sales from operations in the UK, Canada and the USA, and brings a wealth of operational and public market experience. Following a review of the Company's operations he has taken steps to streamline sales and production activities to improve costs and efficiencies.

The Company's two Canadian investments, Veritas Pharmaceuticals and Rapid Dose Technologies were sold in the first quarter of 2020.

Central to the Group's policy and activities is adherence to best practice and regulatory compliance. In this it is supported by PhytoVista Laboratories, which has become a well-established presence in the sector in testing both Sativa's and third party products. As part of the commitment to the highest standards, Goodbody Botanicals and Goodbody Wellness' packaging has sector-leading provision of product and dosage information. Each item is fully tested and each package gives information to enable the buyer to check the test results online.

In December the Group successfully raised £1.38 million (before expenses) by way of a placing and subscription accompanied by the issue of warrants. At 31 December 2019 cash balances were £1.99 million.

Trading in the first quarter of 2020 has started well but the downturn in economic activity as a result of consumer concern and government advice in relation to the COVID-19 pandemic has affected the Group. Retail outlets have been temporarily closed and some employees have been furloughed.

The focus is on driving sales through the Group's website and direct-selling subsidiary, Tessellate Collective. Revenues are supported by the newly-launched CBG hand cleanser and work continues on other product development. However, in the light of uncertain economic conditions forecasting Sativa's full year 2020 financial outcome is challenging.

Jonathan Wearing
Chairman

03 June 2020

Chief Executive's Operational Review

Performance

2019 has been a year of building a solid foundation for growth. Having joined the Group in August 2019 I was pleased to find a group set to take on the challenges of a new and evolving market. The Sativa Group is uniquely positioned to take advantage of the CBD and Medicinal Cannabis market in the UK. We believe a key differentiator will be the quality of the products we take to market. Our product development, testing and production is supported by PhytoVista Laboratories ensuring we produce and sell the highest quality products.

2019 has seen us experiment, learn and sharpen our focus, adjust to the evolving market and grow. Sales in the year to 2019 grew to £1.45m.

In the second quarter and early third quarter 2019 we opened three pilot "Goodbody Wellness" retail locations in Bath, Cirencester and Bristol. The plan was to test the stores and set them up with the format and systems to enable franchising. Sales in the stores increased gradually but the stores were not yet at a breakeven level when the global COVID-19 pandemic forced them to be closed. Therefore, although we are capable of franchising, we have held off on franchising until the model is proven. We are also developing lower cost concession and pods to enable franchising in smaller markets and urban shopping centres.

The George Botanicals CBD brand continued to grow throughout 2019. In Q3 2019 after feedback from consumer focus groups we developed a new brand focused on the UK high street pharmacies and grocers. This is the Goodbody Botanicals brand. This brand drives the message of "CBD You Can Trust", supported by the THC free formulation and testing by the Sativa Group companies. The brand has been very well received by this customer segment with listing discussions ongoing. One highlight in Q1 2020 is the list at WH Smith Travel with circa 90 locations.

The Tessellate Collective direct selling brand continues to grow by building sales with existing sales advocates as well as adding new advocates across the UK.

PhytoVista Laboratories has continued to grow throughout 2019 and had a strong start in 2020. The team is recognised across the UK as a leading Cannabis product testing laboratory. They provide testing for a good majority of the CBD brands in the UK as well as in-house testing for Sativa Group products. PhytoVista is also now in the final stages of securing ISO accreditation for Cannabis product testing.

Veterinary product development continues as we determine the optimal formula for the Canine Osteoarthritis market. We are helped along this path with support from our Scientific Advisory Board. This focus presents a unique opportunity to be the first entrant into the UK market. It is a complicated process and is governed by the UK VMD, and we are following all the required regulatory processes and procedures.

We continue to optimise processes and the leadership team. We have increased our capabilities and processes in the areas of Marketing, Ecommerce and Supply Chain. These are critical areas we will continue to invest in to enable us to drive profitable sales growth.

We were pleased with the first two months of Quarter 1 2020 as we tracked to deliver increased performance in alignment with our plan. As with everyone in the UK we experienced the impact of COVID-19 and the resulting lockdown. We took immediate cost reduction actions across the business. Additionally, we have converted some of our production capacity to hand sanitiser. This new product is proving successful both in selling online and to corporations and groups looking for customised packaging/labelling solutions.

Also announced in Q1 2020 we entered into discussions regarding a takeover of the Sativa Group Plc by Stillcanna Inc of Canada. The basis of the transaction positions the Group when combined.as a brand that creates a true European seed to consumer CBD wellness group with cultivation and extraction. We will also work jointly on a UK FSA Novel Foods application. This is an important new requirement for food supplements coming into force on 31 March 2021.

The first main focus for 2020 is on developing the brands within the Group as follows:

- **Goodbody Wellness -** Focused on Health and beauty, high end retail and online. This brand is getting a complete upgrade and relaunch scheduled for 1 July 2020.
- **Goodbody Botanicals -** Focused on pharmacies, grocers and online.
- **Tessellate Collective** - Direct selling model.
- **George Botanicals -** Focused on discount, other retail and online.
- **PhytoVista** - Expand the business and ISO accreditation.
- **Veterinary** - Continue building for the future.

This focus will be implemented in 2020, through increased focus on Marketing and Ecommerce efforts across core brands.

The second big focus for 2020 will be acquisition completion and integration – the merger of the Sativa Group Plc and Stillcanna Inc. We will move through the process and if the transaction is completed, integrate the businesses effectively.

Quality and Compliance

Along with the commercial focus noted above, the Group remains highly focused on and committed to quality and compliance. This comes in all forms be it on the financial, governance and public disclosure front, as well as product quality and regulatory compliance across the Group.

Henry Lees-Buckley
Chief Executive Officer

03 June 2020

Financial Review

Operational Performance

The Group reported revenues of £1.45 million in the year to 31 December 2019, representing an increase of 190% on the annualised run rate of the revenue reported in H2 2018 of £0.5m (George Botanicals was acquired June 2018 and PhytoVista July 2018), with quarter on quarter growth ranging from 14% - 51% in the period.

- Revenues from the sale of CBD Products grew by £928,000 compared to 2018 (£222,000), driven by continued growth in brand penetration across the product portfolio, augmented by the launch of Tessellate Collective direct selling and Goodbody Wellness brands in Q2 and Goodbody Botanicals in Q3. This represents a 159% increase on the annualised run rate reported in H2 2018 (£444,000). Sales from online channels strengthened in the year, increasing by £98,500 in Q4 vs Q1 2019.
- A continued focus on quality and compliance across the CBD industry contributed to increased Testing revenues from PhytoVista Laboratories, which grew by £261,000 on 2018 (£38,000), representing a 293% increase on the annualised run rate reported in H2 2018 (£76,000).

Gross profit of £754,000 was reported in the year, with an improvement in gross profit margin of 10pts to 52%, due to a significant decrease in the bulk price of CBD extracts from 2018 as the supply of organic material became increasingly commoditised, and manufacturing efficiency gains from the purchase of an automated bottling line.

Adjusted EBITDA (earnings before interest, tax, depreciation, share-based payments and exceptional items) loss of £2,564,000 was reported in the year, as the Group continues to invest in staff, infrastructure and marketing to drive growth.

- Wages and salaries increased by £1.14 million to £1.58 million, due to headcount increasing by 37 FTEs to a total of 47 across the Group as we launched new brands, commissions on increased sales, a new CEO, and an upgrade in talent across the business.
- The Group invested a total of £339,000 in research and development initiatives, including £136,000 of staff costs, to develop new products, increase production capabilities, and develop laboratory testing methods. This cost also included £24,000 supporting research with King's College London into the efficacy of Cannabis-Based Medicinal Products in treating respiratory conditions.
- Given the nature of the sector the Group operates in, we continue to prioritise regulatory capabilities and processes, to ensure we are fully compliant within the regulatory landscape. We invested £110,000 in the year to ensure compliance, including regulatory team members, membership of trade associations such as the Centre for Medicinal Cannabis, and Home Office license acquisition.
- Expenditure on selling and distribution costs, including advertising, marketing and tradeshows, totaled £472,000, an increase of £309,000 on the prior year, following a full year of spend (versus six months in the prior period) to increase brand awareness in an increasingly crowded CBD market. The Group invested £88,000 in IT, telephone and internet, and expenditure on administration, finance and travel increased with the expansion of the business and revenue growth.

Non-cash Charges

- Non-cash charges include £260,000 of depreciation expense including 'lease right to use asset' charges for Head Office, manufacturing and Goodbody Wellness stores leases, leasehold improvements across the estate, plant and machinery including laboratory, manufacturing, and computer equipment.
- The share-based payment charge of £729,000 incorporates £579,000 from the Group's equity settled share option schemes including an employee Long-Term Incentive Plan, and an additional £150,000 non-cash charge relating to the sponsorship of a car in the 2019 Ginetta Junior Championship, funded by Geremy Thomas surrendering options. The resulting TV and media exposure from sponsoring the Ginetta championship winning driver, exceeded expectations.
- IAS 36 impairment provisions of £89,000 have been booked as an exceptional item in the year; as part of the Group's review of overall retail strategy we have taken a prudent view of the trial Goodbody Wellness stores ability as cash generating units. Management have taken the view that the impact of COVID-19 which forced the three stores to close will result in a decline in retail trading conditions on the high-street in the medium-term, and is adjusting its retail strategy accordingly via the launch of new products such as hand cleanser and sanitisers, and expanding its digital marketing strategy to drive online sales.

Fund-Raises and Investments

The Group raised £1.38 million in cash (before £34,000 of costs) from a share placing and subscription in December 2019, the majority of which from existing shareholders as well as employees, to fund ongoing working capital and investment in growth. A further £256,000 in proceeds were realised from the exercise of options and warrants.

Following the change in status from an investment vehicle to an operating company, the Company disposed of 93,000 Rapid Dose Therapeutics Inc ("RDT") shares, realising proceeds of £27,000, with the remaining holdings in RDT and Veritas generating a loss of £144,000 in the year, and a net book value of £72,000. The remaining investments in RDT and Veritas were sold in Q1 2020.

A statutory pre-tax loss of £3.80 million was reported in the year.

Review of Asset and Liabilities

Net assets total £3.50 million at 31 December 2019, incorporating £1.99 million in cash and cash equivalents.

- In the year, the Group invested a total of £525,000 in property, plant and equipment (excluding the £704,000 lease right of use asset).
- Key investments include £177,000 in lab and production plant and machinery, including the new bottling line which increased capacity to around 7,500 units per day, £200,000 in leasehold improvements relating to the Goodbody Wellness stores, and improvements to manufacturing, laboratory and office space as well as £87,000 in computer equipment (including software to support e-commerce and supply chain).
- Depreciation totaled £260,000 and there was an additional impairment to the right of lease assets of £79,000 and £10,000 to leasehold improvements due to the lower than expected retail performance, resulting in a net carrying value of £1.21 million.
- Inventories increased by £96,000 on the prior year to £208,000, driven by higher volumes of finished goods in distribution centres ready for dispatch in-line with increased trading volumes.
- Trade and other receivables and trade and other payables have increased on the prior year in-line with trading volumes, and we continue to monitor and proactively control aged debt, payment terms and supplier credit terms to effectively manage working capital.

Cash Flows

Net cash outflows from operations totaled £2.61 million in the year as the Group continues to invest in talent, marketing, regulatory and R&D to build brand market share and develop new revenue streams.

- Proceeds from the sale of RDT shares (£27,000) net off against £521,000 of investments in property, plant and equipment, resulting in a further net cash outflows of £494,000.
- Net proceeds from the issue of shares of £1.45 million, combined with £95,000 lease repayments, results in a cash and cash equivalents balance of £1.99 million.

The Company has over 569 million shares in issue.

Outlook

Pre COVID-19, the Group was trading within market expectations but as with most other businesses the impact has meant original forecasts are not being met and contingency plans have been put in place. As a result of the retail trading environment, and the resulting impact in demand from other CBD manufacturers for laboratory services, the Group is experiencing a decline in trading volumes, apart from online sales which continue to grow and new revenue streams from the launch of new products such as hand sanitisers and gels. Management have taken assertive action to reduce operating costs, furloughing some staff and reducing the hours of others, significantly cutting back on discretionary spend, and securing £50,000 of government grants for retail business.

Key Performance Indicators

The Board has identified the following KPIs as relevant measures to monitor and manage the Group.

Performance Indicators	**2019**	**2018**	**Commentary**
Revenue (£m)	1.45	0.26	Group revenue net of intercompany sales
Gross profit margin	52%	42%	Gross profit as a percentage of revenue.
Adjusted EBITDA (£m)	(2.56)	(1.08)	EBITDA adjusted for non-cash charges such as share-based payment charges and exceptional items. Management consider this to be a more appropriate measure of underlying group performance.

Performance Indicators	2019	2018	Commentary
Loss per share (pence)	(0.72)	(0.52)	Loss for the year divided by average number of shares in issue during the year.
Net asset position (£m)	3.50	4.97	Total assets less total liabilities.
Cash used in operations (£m)	(2.61)	(1.53)	Net income / (loss), adjusted for non-cash items and for changes in working capital.
Number of laboratory tests	2,876	402	Quantity of individual tests performed for external and internal group customers, within the period.
Home Office licenses	Two	One	Low THC Industrial Hemp and Controlled Drugs licence.
Product lines	67	29	Individual own branded product skus.

Financial Risk Management

The main financial risks arising from the Group's activities are credit risk and liquidity risk. These are monitored by the board of Directors and actions put in place to manage them.

Liquidity and cash runway risk: Sativa Group actively manages its financial risk to meet its foreseeable needs in the short and medium term using cashflow forecasting at least two years into the future, including planned fund-raises and merger and acquisition activity. Due to COVID-19 these forecasts have become more unpredictable but costs have been significantly reduced, strong costs controls put in place and cash is monitored weekly.

Credit risk: The Directors consider there to be minimal credit risk in respect of the Group's cash balances as they are all held with reputable financial institutions. The Directors manage credit risk in respect of trade debtors by reviewing outstanding balances and performing credit checks on new customers.

Currency risk: This is monitored but currently is minimal as few sales are in any currency other than sterling and purchases from abroad, mainly CBD oil, are negotiated using spot prices on a per order basis with very short payment terms.

Principal Risks and Uncertainties

A risk management framework has been adopted by the Board and a risk register put in place for each business with a strategic register for the overall Group. All risks rated as 'high' are reviewed at least quarterly by the whole Board while all risks are managed and monitored by the Managing Director of the relevant company with oversite across the Group by the Company Secretary.

A review will be taken on an annual basis for the effectiveness of the Group's risk management and internal control systems.

Risk	Description and mitigation
Strategic	**Regulation and classification of CBD products as a novel food** Following European re-classification, the UK FSA have confirmed its approach to regulating CBD. The Group welcomes an improved level of regulation for the emerging CBD industry, and the response to this change could be beneficial for the Group if implemented correctly and proportionately. The Board has a Director of Regulatory Affairs who is actively engaging at government level to try to help shape the response to this risk. Key partnerships with raw CBD oil suppliers that are actively pursuing novel food status are being negotiated.
	Licenses The Group must obtain the relevant licenses from the Home Office and HMRA to fulfil its long-term strategy. During the year the Group secured a R&D license to cultivate high THC medicinal cannabis. The Director of Regulatory Affairs continues to engage with the relevant bodies and is leading the application for additional licenses to handle and produce products for both manufacturing and testing. This is in addition to the Industrial Hemp license already acquired in the name of the CEO.

Risk	Description and mitigation
Financial	**Cashflow** In the period of investment, cash needs to be managed effectively to ensure it is not absorbed at a faster rate than planned, to ensure the existing businesses at an operational level are cash positive. Monthly updates on the cash position and strong controls on authorising expenditure have been implemented.
	Grant funding The Group is in the process of applying for a European grant to partially fund the clinical research for the development of a veterinary medicine. Should the bid be unsuccessful, the Group will need to consider alternative sources of funds, including UK Grant funding, commercial partners, or equity funding via a share placement.
Operational	**Interruption to supplies of CBD extract oil due to Brexit or other barriers** Management are diversifying the supplier base, buying in larger quantities and holding higher volumes of stock to reduce this risk. The Group is continuing to evaluate its strategy to operate our own extraction and manufacturing process, sourcing raw plant material from suppliers across the globe.
	Underlying retail conditions An evaluation of the Group's overall retail strategy and the trial stores is being undertaken and the model being developed as required to make it more effective. Alternatives to shops such as PODs and concessions are being considered as a variation to the model. The Goodbody Wellness brand is also being developed and sold through other Health and beauty channels, and further marketing initiatives to boost online sales.
	Disruption to trading conditions and supply chain due to COVID-19 global pandemic: The Group has taken measures to reduce ongoing operating expenditure by closing its retail stores and furloughing non-essential staff, reducing headcount and hours, cutting discretionary spend including marketing and travel. Management perform continuous reviews of forecasted sales, operating costs, CAPEX and resulting cashflow, and evaluating alternative supply chain suppliers and partners. The Group has launched new product ranges such as hand cleanser and is accelerating growth in the online sales channel to compensate for the current shortfalls in other channels, recently recruiting a Head of Marketing to drive e-commerce strategy.
Compliance	**Not complying with legal requirements in the sector** There are currently strict rules regarding not making medical claims for CBD products and adhering to limits regarding THC content. Having our own laboratory as part of the Group allows us to test our products to ensure compliance with these regulations. Additional tests are undertaken with an external laboratory to verify the results from our own laboratory. In 2019 we have employed a training manager to ensure staff are properly briefed regarding what claims can and cannot be made about our products and implemented group policies regarding medicinal claims. Our multilevel marketing platform has checks built into the software to prevent words associated with medical claims to be used.

Approved by the Board and signed on its behalf by

Joseph Colliver
Chief Financial Officer

03 June 2020

Introduction

The Board is committed to effective corporate governance as the basis for delivering long-term value growth and for meeting stakeholder expectations for proper leadership and oversight of the business.

The Board has chosen to apply the Corporate Governance Code for Smaller and Mid-Size Quoted Companies published by the Quoted Companies Alliance (the 'QCA Code'), as far as it considers appropriate for the size and nature of the Group.

Board composition and operation

The Board comprises four Non-Executive and two Executive Directors, an increase of one during the year as Geremy Thomas, the founder and initial CEO, moved to take up the role of Deputy Chairman when Henry Lees-Buckley was appointed as CEO. The Board has an annual schedule of meetings and, to enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. In addition, the Company's Articles of Association allow Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. On appointment, new Directors will receive a tailored induction. Briefing sessions are organised during the year, materials are provided for the Board on matters considered relevant to the discharge of the Directors' duties and Directors may take additional training where necessary as part of their continuing development at the expense of the Company.

Sativa's board of directors are aware of their responsibilities under S172 of the Companies Act relating to the company and all its stakeholders and evaluates its decision making on the long-term impact on both.

Regulatory Bodies

The Group has a key focus on regulatory compliance both of a general nature such as Company, Employment and Health and Safety Law but also specific to the environment in which it operates including the management of controlled substances and ISO17025 for labs, which is nearly complete. As well as a Company Secretary there was a Director of Regulatory Control employed during the year. Both reported to each board meeting on regulatory issues including statutory compliance and the companies' progress on matters such as the Home Office licenses for handling controlled substances and for growing medicinal cannabis for R&D purposes. Additionally, a number of external advisors supported the Group through ISO accreditation, Home Office visits, Food Standards Agency, Trading Standards, and others. The Group is a founding member of The Centre for Medicinal Cannabis (CMC), and its sister organisation, The Association for the Cannabinoid Industry(ACI), the pre-eminent trade bodies for the industry, regularly attending board meetings and presenting technical papers at meetings and seminars.

Relations with shareholders

The directors promote the success of the Group through meetings, investor relation platforms, presentations to investor groups, advisors and through the corporate website as well in individual interactions. The company encourages communication and feedback from shareholders with many shareholders individually known to board members. Shareholders are provided with the opportunity of receiving regular group updates and the opportunity to ask questions to which they get a response from the best placed staff member. Shareholders are delivered notices of all statutory announcements and General Meeting notices along with the Annual Report and Accounts.

Employees

During 2019, various methods of engagement with employees were put in place including monthly staff meetings with mini workshops, which as well as keeping staff aware of current business strategies, enabled staff to share learning across the business. The Company is an equal opportunities employer and when appropriate encourages staff to take on new roles and expand their knowledge. During the year the company appointed an HR advisor who amongst other things advises on interactions with staff and policy. Private Health Insurance was introduced as an additional benefit for staff during the year.

Corporate Social Responsibility

The Group considers all stakeholders, including customers, in relation to business activities, to which it offers a bespoke service to many, providing as much product information as possible and responding to questions in a timely manner. During the year the Group ran focus groups for customer feedback as well as using social media to allow customers to engage as a wider audience.

A corporate ethics code to cover all areas of corporate responsibility was implemented during the year which both staff and board members signed up to and is published on the company website. Many polices were implemented during the year including an Environmental policy and Anti-bribery and Impartiality policy to support this code of Ethics. The Group also engages with the community at large including raising funds for charities through some of its product sales and working with groups which have a similar focus on Wellness.

Board Committees

Audit Committee

The Audit Committee is chaired by Angus Kerr, an independent Non-Executive Director. It has primary responsibility for monitoring the quality of internal controls, ensuring that the financial performance of the Group is accurately measured and reported on and reviewing reports from the Group's auditor, in all cases having due regard to the interests of shareholders. The Audit Committee reports to the Board on all these matters and will meet at least twice a year. The Audit Committee has terms of reference in place which have been formally approved by the Board. Mark Blower and Jonathan Wearing are the other members of the Audit Committee.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee is chaired by Angus Kerr, an independent Non-Executive Director. It determines the terms and conditions of service of the Executive Directors and other senior management, including share options and benefits. This committee meets at least twice a year and has terms of reference in place that have been approved by the Board. The Remuneration Committee also approves group-wide HR policies and reviews the compensation of the Board. Further information is set out in the Directors' Remuneration Report below. Mark Blower and Jonathan Wearing are the other members of the Remuneration and Nomination Committee.

Attendance at meetings

The attendance at normal scheduled meetings during the year has been consistently strong with only one meeting in twelve missed by Mark Blower and 100% attendance for all other directors (this excludes such ad hoc meetings as were necessary during the year to address specific matters arising).

Internal Control

The Board has overall responsibility for ensuring that the Group maintains a system of internal control, to provide it with reasonable assurance regarding the reliability of financial information that is used within the business and for publication and the safeguarding of assets. There are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss. Some examples of internal controls operated by the Group are given below.

During the year the Group's financial information, system of controls, the risks and risk management were subject to scrutiny by a number of professional advisers for interim review and year end audit.

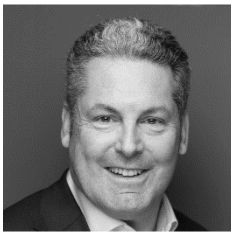
The Board has an ongoing process for identifying, evaluating and managing the Group's significant risks. The process includes:

- Preparation and approval of budgets and regular monitoring of actual performance against budget;
- Preparation of monthly consolidated management accounts;
- Preparation of updated profitability and cash flow forecasts to reflect actual performance and revised outlook as the year progresses, including an assessment of the adequacy of funds for the foreseeable future;
- Monitoring the status of projects in development and future development opportunities.
- Setting all Group policies to meet both Regulatory requirements and strategic intent

The board operates a risk management framework and a risk register, and both will be kept under regular review by the Audit Committee. The Group will continue to take steps to embed internal control and risk management further into the operations of the business and to deal with areas for improvement which come to the attention of management and the Board.

Board of Directors

Henry Lees-Buckley – Chief Executive Officer (Aged 59)



Henry is a seasoned corporate executive, with extensive experience of leading companies in the public markets. Henry was previously CEO of Uni-Select, a Canadian TSX quoted company, with operations in the UK, Canada and the USA. Prior to that, he was a senior global executive and officer in the USA and Canada for W.W. Grainger, a US$15 billion Fortune 500 company. Henry is currently a non-Executive Director of NASDAQ-quoted BMC (Building Materials Corp) which has sales of US$3.8 billion and a market capitalisation of US$1.6 billion. Henry holds an MBA from Queens University, Kingston, Ontario and has held numerous executive level positions both in North America and the United Kingdom.

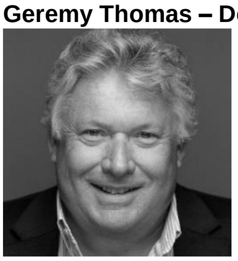
Joseph Colliver – CFO (Aged 40)

Joseph is a Chartered Accountant who combines financial, commercial and management consulting experience. Joseph was a Director of Consulting at Kantar Consulting, part of WPP Plc ("WPP") which advises Retail, Sales and Shopper clients on enhancing their commercial capability and the commercial competency of their staff. Prior to this, Joseph was CFO and a senior board member at WPP's Kantar Futures. From 2012 – 2015 Joseph was Global Commercial Director of WPP's Kantar subsidiary Taylor Nelson Sofres, a $1.8 billion turnover marketing agency.

Jonathan Wearing – Chairman (Aged 67)

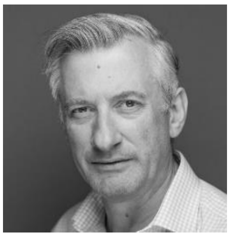
Jonathan is an experienced, City-based corporate financier, who began his City career after graduating from Cambridge University with a M.A. in Economics. Formally a Director in the corporate finance department of Citicorp Investment Bank Limited, Jonathan is currently an angel investor in companies. He was also Chairman of Ideagen Plc from July 2012 until April 2018 and remained a non-Executive Director until November 2019.

Geremy Thomas – Deputy Chairman (Aged 59)



Geremy is a successful entrepreneur with a strong track record in the telecommunication, e-learning and consumer finance industries. Geremy co-founded The Carphone Group Plc in the late 1980's before selling to Cable & Wireless for £16 million. This was followed by PNC Telecom Plc, a telecoms business that at its peak was valued at over £200 million. In 2001 Geremy co-founded profitable technical support business TMTI Ltd. George Banco ltd, a consumer Finance business started by Geremy in 2013, sold to Non-Standard Finance Plc for £53 million. He was the founder and first CEO of the Sativa Group.

Angus Kerr – Non-Executive Director (Aged 50)



Angus is an adviser and capital markets professional with nearly 25 years' experience in global banking with specific expertise in strategic and equity advisory, M&A and ECM. He has held, inter alia, managing director and management roles covering advisory, equity advisory and ECM at a number of organisations, including head of Mid-Market Advisory and Broking at Credit Suisse and head of UK ECM at Dresdner Kleinwort. He has a long track record of advising companies and high-profile individuals in the UK, USA and Europe. He is currently Chairman of North Berwick SA.

Mark Blower – Non-Executive Director (Aged 51)

Mark is an experienced finance professional, having spent the last 20 years actively overseeing the financial performance of over 70 UK SME's, with a focus on raising debt and private equity. He began his career in 1996 at the Investment Banking division of a large UK bank, before joining NM Rothschild in 2000. He then ran a highly successful leveraged debt team for five years before starting his Private Equity career in 2010. During his career to-date he has held a number of board positions, across a variety of sectors.

Other Executive Management Staff

Anne Tew – Group Company Secretary

Anne is an experienced Accountant, Company Secretary, and business Mentor who has worked in a range of sectors including the NHS, technology, lab research, manufacturing and education to achieve business turnaround, growth and development. Anne has worked as an Executive and Non-Executive Director as well as advising board members in financial and governance matters as the Company Secretary or external consultant.

George Thomas – Managing Director of Goodbody Botanicals

George is a successful entrepreneur and was an integral part of the founding group of TMTI Ltd. George has pioneered a range of solutions fulfilling an eclectic mix of clients' requirements. He has created a global hospitality management tool and a ground-up mobile solution. More recently, George was a founding director, and shareholder of George Banco Ltd, an unsecured guarantor lending business started in 2013 which grew to a core size of 70 people with a loan book of £30 million. The company was later sold in 2017 for £53.2 million.

Nick Clarkson – Chief Scientific Officer of PhytoVista

Nick Clarkson is Chief Scientific Officer at PhytoVista Laboratories. He started his career with a scholarship at Zeneca Agrochemicals working as a soil scientist, before moving to a position in food testing, specifically looking at adulteration in foods and drinks. After gaining his degree in applied chemistry, he went on to work in medicines development at the pharmaceutical company AstraZeneca. After this he moved into a commercial role with a scientific equipment manufacturer, then at the beginning of 2018 PhytoVista Laboratories was conceived, which in July 2018 was acquired by Sativa Investments Plc.

Nick Horniman – Director of Regulatory Affairs

Dr Horniman has thirty years' experience in the veterinary industry, including setting up and running a group of private veterinary practices. In addition to this, he worked with corporate practices as a veterinary surgeon and consultant and has worked with online veterinary pharmacies and prescription software companies. Nick will implement the Company's licensing strategy through its continuing relationships with the relevant UK agencies and research centres surrounding the complex regulation of the cultivation of cannabis.

Scientific Advisory Board

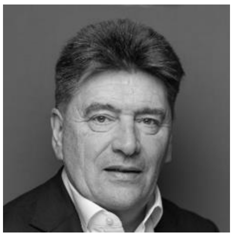
Dr Matthew Brown

Dr Brown is an award-winning Consultant at The Royal Marsden Hospital specialising in pain medicine and anaesthetics and has recently published research into using cannabinoids for cancer pain treatment. Dr Brown holds an honorary research position at the Institute of Cancer Research having completed doctoral research into cancer-related pain at the institution, becoming the first anaesthetist to complete a higher degree in the Institute's history. He has lectured on and produced research covering a breadth of cancer-related pain. Dr Brown has won numerous awards throughout his career including the War Memorial Scholarship at King's College London and the Chairman's Prize on graduation from The Institute of Cancer Research.

Dr Peter Feldshreiber

Dr. Feldschreiber is dually qualified as a barrister and physician. He specialises in medical and healthcare law including medical products liability, pharmaceutical and medical devices regulatory law, clinical negligence and personal injury and medically related employment litigation. He has held appointments as Senior Medical Assessor and Special Litigation Coordinator to the Medicines and Healthcare products Regulatory Agency, Department of Health.

Dr Clive Page



Clive Page is a Professor of Pharmacology, King's College London and Director of the Sackler Institute of Pulmonary Pharmacology, King's College London. Clive's main research interests are in the pharmacology of inflammation and respiratory disease, and he has published over 300 scientific papers and book chapters. Clive was the co-founder and previous Chairman of the Board of Verona Pharma plc, a listed Company developing new drugs for the treatment of Respiratory Diseases. He is a Non Executive Director of Babraham Biotechnology Ltd, Immune Regulation Ltd, PreP Biopharma and EpiEndo.as well as being a Trustee of the Babraham Institute in Cambridge and of the Fraunhofer Institute of Toxicology and Experimental Medicine in Hannover. Clive was awarded an OBE for "Services to Pharmacology" in 2017.

Remuneration Policy

As a company listed on NEX Exchange Growth Market, the Company is not required to provide all of the information included in this Report. However, in the interests of transparency, this has been included as a voluntary disclosure. The Report is unaudited unless otherwise stated. Our overall remuneration policy is to:

Be consistent and principled	Maintain a consistent Executive compensation strategy, based on clear principles and objectives
Link pay to strategy	Support the Group's strategy and its execution
Align with shareholders' interests	Closely align executive reward with shareholder returns
Be competitive	Ensure that the organisation can attract, motivate and retain high-calibre talent, to enable it to compete successfully in an international market
Link pay to performance	Provide the opportunity for executives and other colleagues to receive competitive rewards for performance, aligned to the sustained success of the overall Group, paying what is commensurate with achieving these aims
Reflect the internal landscape	Operate broadly-based incentives to recognise talented performers throughout the Group and take account of pay and conditions for all employees in the Group when setting Executive remuneration The Committee considers pay structures across the wider Group when setting the remuneration policy for Executive Directors. In particular, the general basic salary increase for the broader workforce is considered when determining the annual salary review for the Executive Directors. While participation in the Group's long-term incentive plans is limited to those employees considered to have the greatest potential to influence overall levels of performance, the Group will encourage equity ownership at senior levels through our use of a tax-advantaged Employee Share Incentive Plan
And be clear	Be easy to understand and supported by clear communication

Full details of the remuneration and share options of the directors are set out at notes 5 and 15 to the financial statements.

The table below provides more detail on the key features of our remuneration policy:

Element	**Policy**	**Purpose and link to strategy**
Base salary (fixed)	Positioned competitively in line with the market.	To provide an appropriate level of fixed cash income to recruit and retain talent through the provision of competitively positioned base salaries. It is critical to the success of the business that it can recruit talented individuals at all levels

Element	Policy	Purpose and link to strategy
Share based payments **(variable)**	As discussed in the share note, shares are held by the previous CEO (currently Deputy Chairman), previous COO (currently NED), and the Chairman through an ISA. The CFO and three of the NEDs hold share options. The long-term incentive plan for the CEO is due to be submitted to the Renumeration Committee for approval.	To ensure that the executive directors, who joined the Company in the year of Admission, have a significant interest in the Group's performance aligned with shareholders. Aligns the interests of the Executive Directors with shareholders over the long-term. Incentivises delivery of stretching financial targets that will provide value to shareholders. Acts as a retention mechanism for key talent. Further element of variable pay with stretching performance measures. Additional period post-vesting acts as a retention mechanism
Pension **(fixed)**	Executive Directors are entitled to receive pension contributions from the Company which are equal to 3% of the base salary	To recruit and retain the right people to deliver the strategy.
Termination	On a termination, the Company would be obliged to meet its contractual obligations, but would apply a robust approach to the relevant individual mitigating any losses	Honour contractual commitments while not paying more than is necessary.

Terms and conditions for Non-Executive Directors
Non-Executive Directors have service contracts setting out their terms of appointment. Geremy Thomas was appointed as a Non-Executive Director on the 1 September 2019 after serving as an Executive Director from 19 December 2017, Mark Blower was appointed as a Non-Executive on 24 October 2018 after serving as an Executive Director from 19 December 2017, Jonathan Wearing and Angus Kerr were appointed on 16 August 2018. The appointments may be terminated on one month's notice by either party.

The Board considers that Jonathan Wearing and Angus Kerr are independent Non-Executive Directors.

The Non-Executive Directors do not receive any benefits in addition to their fees, nor are they eligible to participate in any pension or bonus arrangements. Non-Executive Directors hold share options as detailed in the share note.

By order of the Board

Jonathan Wearing
Chairman

03 June 2020

The directors are pleased to present their report and the audited financial statements for the year ended 31 December 2019.

Principal activities
The principal activities of the Group are the production, testing and compliance, commercialisation, sales and marketing of cannabidiol products as well as investment in research and development including into the pharmacology of medicinal cannabis.

Results and dividends
A review of the results for the year and the financial position of the Group is included in the Strategic Report on pages 3 to 9 and details are set out in the financial statements on pages 23 to 55.

In line with the strategy set out at the time of incorporation, the Directors intend to reinvest a significant portion of the Group's earnings to facilitate plans for future growth and investment. Accordingly, the Directors do not propose a dividend at the present time, but it remains the Board's intention, should the Group generate a sustained level of distributable profits, to consider a dividend policy in future years.

Directors
The directors who held office during the year and subsequently were as follows:

H Lees-Buckley	(appointed 19 August 2019)
A J Kerr	
G H P Thomas	
J P Wearing	
J T Colliver	
M Blower	

Directors' interests in the share capital of the Company
Full details of the remuneration and share options of the directors are set out at notes 5 and 15 to the financial statements. The directors who served during the year had the following interests in the share capital of the Company at the beginning and end of the period.

	31 December 2019	31 December 2018
H Lees-Buckley	-	-
A J Kerr	-	-
G H P Thomas	234,000,000	234,000,000
J P Wearing	50,000	50,000
J T Colliver	-	-
M Blowers	6,000,000	6,000,000

Directors' indemnity and insurance
The Group secured insurance cover in March 2019 for its Directors and Officers and those of subsidiary companies under a Directors and Officers liability insurance policy against liabilities which may be incurred by them while carrying out their duties.

Share capital
The issued share capital was 569,189,167 ordinary shares at the year end.

Substantial shareholdings
As at 31 January 2020, the Company was notified of the following interests which represented 3% or more of the ordinary share capital of the Company.

	Number of shares	Percentage of shares
Geremy Thomas /Carbon Managers	234,000,000	41.11%
Bmak Investment LTD / Ken Lawrence	45,333,337	7.96%
Ms T N Rogers	18,833,335	3.31%
Mr R J Lonsdale	18,833,335	3.31%
Mr Sean O'Driscoll	18,766,670	3.30%
Mr George Thomas	18,500,000	3.25%

Annual General Meeting
The business to be conducted at the Annual General Meeting of the Company is set out in the separate Notice of Annual General Meeting which accompanies this Annual Report.

Shareholders
The Board believes that the disclosures set out on pages 3 to 9 of this Annual Report provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Auditor
In accordance with the Companies Act 2006 a resolution proposing the reappointment of RSM UK Audit LLP as auditor will be put to the members at the forthcoming Annual General Meeting.

Disclosure of information to the auditor
Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that so far as the Directors are aware, there is no relevant audit information of which the Company and the Group's auditor is unaware. Additionally, the Directors have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group financial review, together with the financial position of the Group, its cash flows and liquidity position.

The current trading environment is difficult to forecast given the impact of the COVID-19 global pandemic, but the Company is focusing its growth strategy on online sales, to compensate for declines in other channels. The Group has launched new product lines to address increased demand for hand sanitation, reduced ongoing operating costs, and expects a return to strong sales growth in traditional channels in H2. Current cashflow projections forecast sufficient cash at hand to meet operational requirements into Q4 2020 (excluding transaction fees associated with the proposed Stillcanna merger), and with further funding therefore required during 2020.

On 2 June 2020, the Group signed a Bid Conduct Agreement and plan to announce the receipt of a firm offer from Stillcanna Inc. on 3 June 2020 to implement a UK Scheme of Arrangement, including a break fee payable by Stillcanna equal to the higher of £1m or 25% of the value of an alternative transaction, with a timetable for completion by early August, subject to shareholder approval from both sets of shareholders. The proposed transaction generates a vertically integrated 'seed to shelf' company, with strong strategic synergies, and a strengthened balance sheet. The forecasted cash at hand for the combined business extends into mid-2021, and combined with planned future fund raising provides sufficient working capital to operate for the foreseeable future, based on conservative 'COVID-19' trading conditions.

Whether or not this transaction is approved by both sets of shareholders, which the Directors believe is highly likely to be approved, given the level of irrevocable support from both sets of shareholders, the Directors are confident that the Group will be able to raise required funds from a share placement or subscription, where active conversations are underway. The directors therefore acknowledge that the requirement for further fundraises gives rise to a material uncertainly in relation to the adoption of the going concern assumption.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements.

Future developments
The Strategic Report on pages 3 to 9 refers to the Group's ongoing strategy and development.

Strategic report
In accordance with S414c(ii) of the Companies Act 2006, the Group has chosen to set out in the Group's Strategic Report, information required by the Large and Medium Companies and Groups (Accounts and Reports) Regulations 2008 Sch.7 to be contained in the Director's Report and has done so in respect of a review of its principal risks, financial risk management, future developments and a review of its business.

Approved by the Board and signed on its behalf by:

Anne Tew
Company Secretary
03 June 2020

Sativa Group Plc

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and Company financial statements for each financial year. Under that law, the directors have chosen to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year.

In preparing the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions, and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Sativa Group Plc website.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Sativa Group Plc (Registration number: 11118594)

Opinion
We have audited the financial statements of Sativa Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the consolidated statement of comprehensive income, consolidated and company statements of financial position, consolidated and company statements of changes in equity, consolidated and parent company statement of cash flows, consolidated and company movements in net cash and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. 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 group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities 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 going concern wording in note 1 to the financial statements, which indicates that the group and parent company will require funding in the short-term in order to continue as a going concern. The directors expect that the required funding will be received from future placements and/or the Stillcanna merger. As outlined in note 1, the requirement for future funding along with the uncertainties due to Covid-19, indicate that a material uncertainty exists that casts significant doubt on the group and parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

Group key audit matters

Impairment – We critically assessed the impairment reviews performed by management over the carrying value of goodwill and fixed assets as this assessment incorporates a significant level of management judgement. Our work included a review of the client's board approved forecasts and discounted cashflow calculations to assess whether the assumptions appeared reasonable. We also evaluated management's sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that individually or collectively would be required to lead to an impairment. The impairment reviews and the resulting £89,000 impairment of property, plant and equipment are commented upon in notes 8 and 9 of the financial statements

Parent company key audit matters

Impairment – We critically assessed the impairment review performed by management over the carrying value of investments and group debtor balances as this assessment incorporates a significant level of management judgement. Our work included a review of the client's assessment of the potential for impairment including a review of board approved forecasts and discounted cashflow calculations to assess whether the assumptions appeared reasonable. We also considered the adequacy of the disclosures on the booked impairment of £625,000 as outlined in note 12.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £170,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £150,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £8,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
Our group audit approach focused on the parent company and the UK trading subsidiaries. The UK entities are subject to a local statutory audit. Our audit procedures covered 100% of group revenue, 99% of group loss before tax and 100% of group total assets. The German entity was not subject to a local statutory audit and instead desktop review procedures were performed.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the directors are responsible for assessing the group's and the parent 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of Sativa Group Plc (Registration number: 11118594)

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 ISAs (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Stephenson (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Suite A, 7th Floor, City Gate East, Tollhouse Hill, Nottingham, NG1 5FS

3 June 2020

Sativa Group Plc

Group Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 £'000	12.5 months 2018 £'000
Revenue	2	1,449	260
Cost of sales		(695)	(150)
Gross profit		754	110
Operating costs	3	(3,318)	(1,187)
Loss from operating activities before depreciation, share-based payment charges and exceptional items		(2,564)	(1,077)
Depreciation	9	(260)	(114)
Impairment of fixed assets	9	(89)	-
Costs of acquiring businesses		-	(37)
Share-based payment charges	15	(729)	(638)
Loss from operating activities		(3,642)	(1,866)
Finance costs - lease liabilities		(11)	-
Fair value (losses) / gains on listed investments	10	(144)	7
Loss before taxation		(3,797)	(1,859)
Taxation	6	-	-
Loss for the period		(3,797)	(1,859)
Total comprehensive loss for the period attributable to:			
The owners of the parent company		(3,789)	(1,859)
Non-controlling interest		(8)	-
		(3,797)	**(1,859)**
Loss per share		**Pence**	**Pence**
Basic and diluted loss per share	7	(0.72)	(0.52)

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc (Registration number: 11118594)

Group Statement of Financial Position as at 31 December 2019

Assets and liabilities	Notes	2019 £'000	2018 £'000
Non-current assets			
Intangible assets	8	572	572
Property, plant and equipment	9	1,207	344
Investments	10	72	243
		1,851	1,159
Current assets			
Inventories	11	208	112
Trade and other receivables	12	500	234
Cash and cash equivalents	20	1,993	3,743
		2,701	4,089
Current liabilities			
Lease liabilities < 12 months	18	(170)	-
Trade and other payables	13	(430)	(281)
		(600)	(281)
Non-current liabilities			
Lease liabilities > 12 months	18	(451)	-
		(451)	-
Net assets		3,501	4,967
Equity			
Issued share capital	14	1,423	1,275
Share premium account		5,427	4,867
Share-based payments reserve		1,900	675
Retained earnings		(5,250)	(1,859)
Equity attributable to the owners of the parent		3,500	4,958
Non-controlling interest		1	9
Total equity		3,501	4,967

Approved and authorised for issue by the Board on 03 June 2020 and signed on its behalf by:

Joseph Colliver
Director

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc
Group Statement of Changes in Equity for the year ended 31 December 2018

	Share capital	Share premium account	Share-based payments reserve	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total Equity 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Share placing	1,245	4,665	-	-	5,910	-	5,910
Share placing issue costs	-	(209)	37	-	(172)	-	(172)
Shares issued on acquisition of business	25	406	-	-	431	-	431
Shares issued under share option / warrant schemes	5	5	-	-	10	-	10
Share-based payments	-	-	638	-	638	-	638
Total contributions by owners of the parent recognised directly in equity	1,275	4,867	675	-	6,817	-	6,817
Non-controlling interest on investment in German subsidiary	-	-	-	-	-	9	9
Total changes in ownership interest in subsidiaries that do not result in a loss of control	-	-	-	-	-	9	9
Total transactions with owners recognised directly in equity	1,275	4,867	675	-	6,817	9	6,826
Loss for the year	-	-	-	(1,859)	(1,859)	-	(1,859)
Total comprehensive income for the year	-	-	-	(1,859)	(1,859)	-	(1,859)
Balance at 31 December 2018	1,275	4,867	675	(1,859)	4,958	9	4,967

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc
Group Statement of Changes in Equity for the year ended 31 December 2019

	Share capital	Share premium account	Share-based payments reserve	Retained earnings	Total attributable to owners of the parent	Non-controlling interest	Total Equity 2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Brought forward 1 January 2019	1,275	4,867	675	(1,859)	4,958	9	4,967
Share placing (note 14)	86	400	894	-	1,380	-	1,380
Share placing issue costs (note 14)	-	(34)	-	-	(34)	-	(34)
Shares issued under share option / warrant schemes (note 15)	62	194	-	-	256	-	256
Transfer of share-based payment charge for warrants and options exercised / forfeited	-	-	(398)	398	-	-	-
Share-based payments (note 15)	-	-	729	-	729	-	729
Total transactions with owners recognised directly in equity	148	560	1,225	398	2,331	-	2,331
Loss for the year	-	-	-	(3,789)	(3,789)	(8)	(3,797)
Total comprehensive income for the year	-	-	-	(3,789)	(3,789)	(8)	(3,797)
Balance at 31 December 2019	1,423	5,427	1,900	(5,250)	3,500	1	3,501

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc

Group Statement of Cash Flows for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss for the period		(3,797)	(1,859)
Depreciation of property, plant and equipment	9	260	114
Impairment of fixed assets	9	89	-
Loss on disposal of property, plant and equipment		5	-
Share-based payment charges	15	729	638
Fair value losses/(gains) on listed investments	10	144	(7)
Interest on lease liabilities		11	-
Increase in inventories		(96)	(57)
Increase in trade and other receivables		(116)	(162)
Increase/(decrease) in trade and other payables		158	(198)
Net cash used in operations		(2,613)	(1,531)
Cash flows from investing activities			
Net cash inflow on acquisition of businesses		-	29
Proceeds from sale/ (purchase) of listed investments	10	27	(236)
Payments for property, plant and equipment	9	(525)	(266)
Proceeds for sale of plant and equipment		4	-
Net cash used in investing activities		(494)	(473)
Cash flows from financing activities			
Net proceeds from issue of equity shares	14	1,452	5,738
Repayments of lease liability	18	(95)	-
Proceeds from non-controlling interests for issuance of shares		-	9
Net cash generated by financing activities		1,357	5,747
Net (decrease)/increase in cash and cash equivalents during the period		(1,750)	3,743
Cash and cash equivalents at the beginning of the period		3,743	-
Cash and cash equivalents at the end of the period	20	1,993	3,743

The notes on pages 33 to 55 form an integral part of these financial statements.

Consolidated movements in net cash

Year ended 31 December 2019	At 1 January 2019 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2019 £'000
Cash and cash equivalents	3,743	(1,750)	-	1,993
Finance leases	-	95	(716)	(621)
Net cash at end of year	3,743	(1,655)	(716)	(1,372)

Other non-cash movements include new lease liabilities and interest on lease liabilities.

Period ended 31 December 2018	On incorporation £'000	Cash flow £'000	At 31 December 2018 £'000
Cash and cash equivalents	-	3,743	3,743
Net cash at end of period	-	3,743	3,743

Sativa Group Plc (Registration number: 11118594)

Company Statement of Financial Position for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	9	549	51
Investments	10	761	710
		1,310	761
Current assets			
Trade and other receivables	12	3,377	1,650
Cash and cash equivalents		1,623	3,646
		5,000	5,296
Current liabilities			
Lease liabilities < 12 months	18	(104)	-
Trade and other payables	13	(215)	(172)
		(319)	(172)
Non-current liabilities			
Lease liabilities > 12 months	18	(374)	-
		(374)	-
Net assets		5,617	5,885
Equity			
Issued share capital	14	1,423	1,275
Share premium account		5,427	4,867
Share-based payments reserve		1,900	675
Retained earnings		(3,133)	(932)
Equity attributable to the owners of the parent		5,617	5,885

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 of not to present its individual Statement of Comprehensive Income and related notes. The loss and total comprehensive income for the period dealt with in the financial statements of the Company for the year ended 31 December 2019 was £2,599,000 (2018: £932,000).

Approved and authorised for issue by the Board on 03 June 2020 and signed on its behalf by:

Joseph Colliver
Director

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc

Company Statement of Changes in Equity for the year ended 31 December 2019

	Share capital	Share premium account	Share-based payments reserve	Retained earnings	Total attributable to owners of the parent 2018
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Share placing	1,245	4,665	-	-	5,910
Share placing issue costs (note 14)	-	(209)	37	-	(172)
Shares issued on acquisition of business	25	406	-	-	431
Shares issued under share option / warrant schemes (note 15)	5	5	-	-	10
Share-based payments (note 15)	-	-	638	-	638
Total transactions with owners recognised directly in equity	1,275	4,867	675	-	6,817
Loss for the year	-	-	-	(932)	(932)
Total comprehensive income for the year	-	-	-	(932)	(932)
Balance at 31 December 2018	1,275	4,867	675	(932)	5,885

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc

Company Statement of Changes in Equity for the year ended 31 December 2019

	Share capital	Share premium account	Share-based payments reserve	Retained earnings	Total attributable to owners of the parent 2019
	£'000	£'000	£'000	£'000	£'000
Balance brought forward 1 January 2019	1,275	4,867	675	(932)	5,885
Share placing (note 14)	86	400	894	-	1,380
Share placing issue costs (note 14)	-	(34)	-	-	(34)
Shares issued under share option / warrant schemes (note 15)	62	194	-	-	256
Transfer of share-based payment charge for options and warrants exercised / forfeited	-	-	(398)	398	-
Share-based payments (note 15)	-	-	729	-	729
Total transactions with owners recognised directly in equity	148	560	1,225	398	2,331
Loss for the year	-	-	-	(2,599)	(2,599)
Total comprehensive income for the year	-	-	-	(2,599)	(2,599)
Balance at 31 December 2019	1,423	5,427	1,900	(3,133)	5,617

The notes on pages 33 to 55 form an integral part of these financial statements.

Sativa Group Plc

Company Statement of Cash Flow for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Loss for the period		(2,599)	(932)
Depreciation of property, plant and equipment	9	68	1
Share-based payment charges		507	616
Intercompany loan impairment charge		625	-
Fair value losses/(gains) on listed investments	10	144	(7)
Interest on lease liabilities		5	-
Decrease /(increase) in trade and other receivables		55	(80)
Movement in Intragroup balances		(2,257)	(1,560)
Increase in trade and other payables		44	172
Net cash used in operations		(3,408)	(1,790)
Cash flows from investing activities			
Payments for investment in German subsidiary		-	(14)
Proceeds from sale/(purchase) of listed investments	10	27	(236)
Payments for property, plant and equipment	9	(36)	(52)
Net cash used in investing activities		(9)	(302)
Cash flows from financing activities			
Repayments of lease liabilities	18	(58)	-
Net proceeds from placing of equity shares	14	1,452	5,738
Net cash generated by financing activities		1,394	5,738
Net (decrease)/increase in cash and cash equivalents during the year		(2,023)	3,646
Cash and cash equivalents at the beginning of the period		3,646	-
Cash and cash equivalents at the end of the period	20	1,623	3,646

Company movements in net cash

Year ended 31 December 2019	At 1 January 2019 £'000	Cash flow £'000	Other non-cash movements £'000	At 31 December 2019 £'000
Cash and cash equivalents	3,646	(2,023)	-	1,623
Finance leases	-	58	(536)	(478)
Net cash at end of year	3,646	(1,965)	(536)	1,145

Other non-cash movements include new lease liabilities and interest on lease liabilities.

Period ended 31 December 2018	On incorporation £'000	Cash flow £'000	At 31 December 2018 £'000
Cash and cash equivalents	-	3,646	3,646
Net cash at end of period	-	3,646	3,646

The notes on pages 33 to 55 form an integral part of these financial statements.

1 Accounting policies

Reporting entity
Sativa Group Plc is a public limited company, incorporated and domiciled in England & Wales. The ordinary shares of the Company are traded on the NEX Exchange.

Statement of compliance
These financial statements have been prepared in accordance with all International Financial Reporting Standards ("IFRS"), as adopted by the European Union, and IFRIC interpretations applicable as at 31 December 2019 and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRS.

The financial statements have been prepared having early adopted IFRS 9 'Financial Instruments', and IFRS 15 'Revenue from contracts with customers', within the prior year financial statements. During the year IFRS 16 'Leases' was adopted using the fully retrospective option with no impact on the prior year comparatives as the group did not have any operating leases requiring to be accounted for under IFRS 16.

Principal activities
The principal activities of the Group are the production, testing and compliance, research and development including pharmacology, commercialisation and sales and marketing of cannabidiol products.

Basis of preparation
These financial statements have been prepared in sterling on an historical cost basis, unless otherwise stated, and have been rounded to the nearest thousand pounds.

A summary of the significant accounting policies used in the preparation of these financial statements is set out below.

Basis of consolidation
The Group financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 December 2019. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances and transactions are eliminated. The financial statements of all subsidiaries are prepared up to the same date as the parent Company.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Acquisition-related costs are expensed as incurred.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Group financial review, together with the financial position of the Group, its cash flows and liquidity position.

The current trading environment is difficult to forecast given the impact of the COVID-19 global pandemic, but the Group is focusing its growth strategy on online sales, to compensate for declines in other channels. The Group has launched new product lines to address increased demand for hand sanitation, reduced ongoing operating costs, and expects a return to strong sales growth in traditional channels in H2. Current cashflow projections forecast sufficient cash at hand to meet operational requirements into Q4 2020 (excluding transaction fees associated with the proposed Stillcanna merger), and is reliant on additional funding being secured during 2020.

On 2 June 2020, the Group signed a Bid Conduct Agreement and plan to announce the receipt of a firm offer from Stillcanna Inc. on 3 June 2020 to implement a UK Scheme of Arrangement, including a break fee payable by Stillcanna equal to the higher of £1m or 25% of the value of an alternative transaction, with a timetable for completion by early August, subject to shareholder approval from both sets of shareholders. The proposed transaction generates a vertically integrated 'seed to shelf' company, with strong strategic synergies, and a strengthened balance sheet. The forecasted cash at hand for the combined business extends into mid-2021, and combined with planned future fund raising provides sufficient working capital to operate for the foreseeable future, based on conservative 'COVID-19' trading conditions.

1 Accounting policies (continued)

Going concern (continued)
Whether or not this transaction is approved by both sets of shareholders, which the Directors believe is highly likely to be approved, given the level of irrevocable support from both sets of shareholders, the Directors are confident that the Group will be able to raise required funds from a share placement or subscription, where active conversations are underway. The directors therefore acknowledge that the requirement for further fundraises gives rise to a material uncertainly in relation to the adoption of the going concern assumption.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements.

Revenue recognition
Revenue is recognised as follows:

Sale of cannabidiol products
Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, or collected by the customer, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, any acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. No element of financing is deemed present as the sales are made with only a short credit period, which is consistent with market practice.

Laboratory testing services
Revenue in respect of laboratory testing services is recognised as these services are delivered.

Foreign currencies
In preparing the financial information of each individual group entity, transactions in currencies other than the entity's functional currency are recognised at the rates of exchange prevailing at the date of those transactions. At the end of the financial period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise. The consolidated financial statements are presented in GBP, which is Sativa Group's functional and presentational currency.

Leases
Low value leases and leases of less than one year are recognised on a straight-line basis over the lease term. On inception of other leases, 'right-of-use' assets have been capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term discounted at an incremental borrowing rate.

A liability corresponding to the capitalised lease has also been recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Exceptional items
The Group presents as exceptional items on the face of the Statement of Comprehensive Income those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the period.

Taxation
The tax charge or credit is based on the result for the period and comprises current and deferred income tax. Tax is recognised in the Statement of Comprehensive Income except when it relates to items recognised directly in equity in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable profit for the period, using tax rates enacted or substantively enacted at the period end date and includes any adjustment to tax payable in respect of previous periods.

1 Accounting policies (continued)

Taxation (continued)
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities included in the financial statements and the tax base of those assets and liabilities. Deferred tax assets are recognised only to the extent that the directors consider that it is probable that future taxable profits will be available against which an asset can be utilised.

Deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the period end date. Deferred income tax assets and deferred income tax liabilities arising in different tax jurisdictions are not offset.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Pensions and post-retirement benefits
The Group operates a defined contribution pension scheme which is available to all employees. The assets of the scheme are held separately from those of the Group in independently administered funds. Payments are made by the Group to this scheme and contributions are charged in the Statement of Comprehensive Income as they become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments.

Goodwill
Goodwill arising on business combinations is initially measured at cost being the excess of the difference between the cost of acquisition and the net fair value of the identifiable assets and liabilities acquired. Costs of acquiring businesses are expensed as incurred. Goodwill is subsequently measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed annually for impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit which contains the goodwill. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the Statement of Comprehensive Income.

The Company's investments in subsidiaries
The Company recognises its investments in subsidiaries at cost less any impairment in its separate financial statements. Impairment is determined by assessing the recoverable amount of the investment. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Statement of Comprehensive Income.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated at the annual rates shown below so as to write off the cost, less any estimated residual values, over the expected useful economic lives of the assets concerned:

- Computer equipment - 33% on a straight-line basis
- Leasehold improvements - over the expected life of the lease
- Furniture and fittings - 20% on a straight-line basis
- Plant and machinery - 5-20% on a reducing balance basis
- Right to use assets are measured at cost to include the lease liability, direct and restoration cost and are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Impairment of assets
The Group reviews the carrying amounts of its tangible and intangible assets at least annually to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount provided that this does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

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1 Accounting policies (continued)

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business, less all costs necessary to complete the sale.

Trade and other receivables
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are measured at amortised cost using the effective interest method less any allowance for expected credit loss. The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Cash and cash equivalents
Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand. For the purpose of the Statement of Cash Flows, cash and cash equivalents as defined above are stated net of any outstanding bank overdrafts.

Financial liabilities and equity instruments
Equity and debt instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities include trade and other payables which are measured at amortised cost using the effective interest rate method.

An equity instrument is any contract which evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group, such as share capital and share premium, are recognised at the proceeds received net of direct issue costs.

Employee benefits
The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

Share-based payments
The cost of equity settled transactions with employees is measured by reference to the fair value on the date they are granted. Where there are no market conditions attaching to the exercise of the options, the fair value is determined using a range of inputs into the Black-Scholes pricing model. Where there are market conditions attaching to the exercise of the options a trinomial option pricing model is used to determine fair value based on a range of inputs. The fair value of equity-settled transactions is charged to the Statement of Comprehensive Income over the period in which the service conditions are fulfilled with a corresponding credit to a share-based payments reserve in equity.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the Statement of Comprehensive Income, with a corresponding adjustment to equity. On the exercise of share options, an amount equal to the fair value of the option at the date it was granted is transferred from the share-based payments reserve into retained earnings.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. When the company issues options for services rendered by a non-employee they are measured at fair value for the services received.

1 Accounting policies (continued)

New accounting standards and interpretations not yet adopted
For the purpose of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 January 2019. No new standards, amendments or interpretations to existing standards that have been published and that are mandatory for the Group's accounting periods beginning on or after 1 January 2020, or later periods, have been adopted early.

The new standards and interpretations are not expected to have any significant impact on the financial statements when applied.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets, liabilities, revenues and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

In applying the Group's accounting policies, management has made the following judgements and estimates which have the most significant effect on the amounts recognised in the financial statements.

Acquisition intangibles
The Group initially measures the separable intangible assets acquired in a business combination at their fair value at the date of acquisition. Management judgement is required in deriving a number of assumptions which are used in assessing the fair value of each acquisition intangible including the timing and amount of future incremental cash flows expected to be generated by the asset and in calculating an appropriate cost of capital.

Share-based payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Judgement is required in determining the most appropriate valuation model and the most appropriate inputs into the model including the level of volatility and the expected life of the option. Further information is given in note 15.

Impairment of goodwill
The Group tests goodwill for impairment on an annual basis in line with the accounting policy noted above. This involves judgement regarding the future development of the business and the estimation of the level of future growth, cash flows and an appropriate discount rate to support the carrying value of goodwill. Further information is given in note 8.

Impairment of other assets
The Group reviews the carrying value of all other assets for indications of impairment at each year end. If indicators of impairment exist, the carrying value of the asset is subject to further testing to determine whether its carrying value exceeds its recoverable amount. This process will usually involve the estimation of future cash flows which are likely to be generated by the asset. Further Information is given in note 9.

Trade and other receivables including group balances
Trade and other receivables are recognised to the extent that they are considered recoverable. Management judgement is required in considering the recoverability of debts and in the estimation of any provisions which may be required where recoverability is considered to be uncertain. Further information is given in note 12.

Incremental borrowing rate
When capitalising the right of use asset an incremental borrowing rate was determined from the current bank rates available. This was determined separately to the head office lease and the retail units based on the prevailing rates at the time. Further information is given in note 18.

2 Segment reporting

Segment information is presented in the financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business reporting format reflects the Group's management and internal reporting structure.

Sale of cannabidiol products ("Products") is the income that the Group receives from the sale of its products. Testing of cannabidiol products ("Testing") is the income that the Group receives from testing of products. Extraction and R&D reflects the results of the Group's extraction and R&D operations which develops future products.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

	Products	Testing	Extraction and R&D	Period ended 31 December
	£'000	£'000	£'000	£'000
Period ended 31 December 2018				
Gross sales	222	40	-	262
Inter-segment sales	-	(2)	-	(2)
Segment revenue	222	38	-	260
Segment results	(399)	(210)	(318)	(927)
Share based payment charges				(638)
Unallocated costs				(301)
Operating loss				(1,866)
Fair value gains on listed investments				7
Loss for the period				(1,859)
Year ended 31 December 2019				
Gross sales	1,226	327	-	1,553
Inter-segment sales	(76)	(28)	-	(104)
Segment revenue	1,150	299	-	1,449
Segment results	(1,433)	(312)	30	(1,715)
Share based payment charges				(729)
Regulatory				(110)
Unallocated costs				(1,088)
Operating loss				(3,642)
Finance costs – lease liabilities				(11)
Fair value losses on listed investments				(144)
Loss for the period				(3,797)

Goodbody Wellness and Goodbody Botanicals sales are combined as product sales, PhytoVista laboratories provide testing services. The regulatory supports the whole group and unallocated costs are central costs and are non-operating in nature and do not have a direct impact on the operating segments. No single customer accounted for more than 10% of total revenue in the period.

2 Segment reporting (continued)

	Products	Testing	Extraction and R&D	Company	Eliminations	Consolidated
	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 December 2018						
Segment assets:						
Segment assets	624	539	66	4,497	(478)	5,248
Inter-segment balances	5	5	-	1,560	(1,570)	-
Total assets	629	544	66	6,057	(2,048)	5,248
Segment liabilities:						
Segment liabilities	(57)	(37)	(26)	(172)	11	(281)
Inter-segment balances	(737)	(476)	(357)	-	1,570	-
Total liabilities	(794)	(513)	(383)	(172)	1,581	(281)
As at 31 December 2019						
Segment assets:						
Segment assets	1,381	665	87	3,118	(699)	4,552
Inter-segment balances	-	4	-	3,192	(3,196)	-
Total assets	1,381	669	87	6,310	(3,895)	4,552
Segment liabilities:						
Segment liabilities	(340)	(27)	-	(692)	8	(1,051)
Inter-segment balances	(2,660)	(924)	(237)	-	3,821	-
Total liabilities	(3,000)	(951)	(237)	(692)	3,829	(1,051)

The Group's operations were undertaken entirely within the United Kingdom.

The Company's assets are shown separately as they are non-operating in nature and do not have a direct impact on the operating segments.

The Group does not expect to have any contracts where the period between the transfer of the promised goods and services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

3 Operating costs

	2019 £'000	2018 £'000
Wages and salaries (note 4)	1,580	441
Operating lease charges	-	1
Sales and Marketing	472	163
Infrastructure	595	88
Other operating costs	671	494
	3,318	1,187
Depreciation of property, plant and equipment	260	114
Impairment of property, plant and equipment	89	-
Total depreciation and impairment	349	114
Auditor's remuneration		
- The audit of the Group and its subsidiaries annual accounts	43	31
Fees payable for other services provided by the Auditor and its related entities:		
- Accounting services	-	9
- Tax compliance and advisory services	32	8

4 Particulars of employees

The average number of staff, including directors, employed by the Group during the period, analysed by category, was as follows:

	2019 Group Number	2018 Group Number	2019 Company Number	2018 Company Number
Management	9	5	4	4
Administrative staff	10	2	5	1
Sales and marketing	13	2	-	-
Technical and support	9	1	-	-
	41	10	9	5

The aggregate payroll costs of these employees were as follows:

-	2019 Group £'000	2018 Group £'000	2019 Company £'000	2018 Company £'000
Wages and salaries	1,415	416	487	259
Social security costs	142	23	68	7
Other pension costs (note 19)	23	2	-	-
	1,580	441	555	266
Share based payment costs (note 15)				
- on options granted	579	635	357	612
	2,159	1,076	912	878

5 Directors' remuneration and share options

The total remuneration of the directors (including fees) for the period was as follows:

	2019 £'000	2018 £'000
Directors' remuneration	413	228
Directors' pension contributions	3	-
	416	228

The remuneration of each of the directors of the Company during the period ended 31 December 2019 was as follows:

	Salary or fees 2019 £'000	Pension 2019 £'000	Total 2019 £'000	Total 2018 £'000
Angus Kerr	32	-	32	9
Geremy Thomas	92	-	92	92
Jonathan Wearing	36	-	36	19
Joseph Colliver	120	3	123	34
Mark Blower	40	-	40	49
Henry Lees-Buckley	93	-	93	-
Noel Lyons	-	-	-	25
	413	3	416	228

The Group paid contributions of £2,562 to a defined contribution pension scheme in respect of Joseph Colliver.

The remuneration of the highest paid director during the year ended 31 December 2019 was £123,000 (2018: 92,000) plus pension contributions of £2,562 (2018: £nil).

The following options over shares in the Company granted to the directors remain outstanding at 31 December 2019:

Director	Balance at 31 December 2018	Exercised / transferred in the year	Balance at 31 December 2019	Option exercise price (pence)	Dates exercisable
Angus Kerr	2,222,222	-	2,222,222	2.25	24 Oct 2021
Geremy Thomas	79,277,775	(4,000,000)	75,277,775	0.5	On issue
Mark Blower	9,000,000	-	9,000,000	0.5	On issue
Joseph Colliver	3,350,000	-	3,350,000	1.5	1/3rd – 05 Dec 2019 1/3rd – 05 Dec 2020 1/3rd – 05 Dec 2021
	4,444,447	-	4,444,447	2.25	05 Dec 2021
	7,794,447	-	7,794,447		

Further information on the Group's share options can be found at note 15 to the accounts.

6 Taxation

The taxation credit recognised in the Group Statement of Comprehensive Income can be analysed as follows:

	2019 £'000	2018 £'000
Current income tax		
UK corporation tax on profit for the current year	-	-
	-	-
Deferred income tax		
Deferred income tax credit for the current year	-	-
Total taxation credit	-	-

The taxation for the period is higher than the average rate of corporation tax in the UK of 19%. The differences are reconciled below:

	2019 £'000	2018 £'000
Loss before taxation	(3,797)	(1,859)
Tax on loss at average standard rate of 19%	(721)	(353)
Expenses not deductible for tax purposes	102	48
Deferred taxation not recognised	619	305
Taxation credit recognised for the current year	-	-

No deferred tax asset has been recognised in the Company or the Group in relation to unrelieved trading losses or temporary differences on share based payments and accelerated capital allowances as, in accordance with IAS 12, there is at present insufficient evidence that sufficient taxable profits will be available in the near future to recover the assets. This is due to the early stage of commercialisation of products and services and the position will be reviewed each year. The Group did not recognise deferred tax assets at 31 December 2019 in respect of:

Group

	2019 £'000	2018 £'000
Accelerated capital allowances	(94)	(34)
Share based payments	978	1,434
Trading losses	946	249
	1,830	1,649

Company

	2019 £'000	2018 £'000
Accelerated capital allowances	(19)	(10)
Share based payments	978	1,434
Trading losses	473	48
	1,432	1,472

The above assets were calculated using a tax rate of 17%, the substantively enacted tax rate at each year end which was to apply from 1 April 2020. Since the year end, changes in the budget have been substantially enacted which will keep the tax rate at 19%.

7 Loss per share

Basic loss per share is computed by dividing the loss for the period attributable to equity holders of the parent by the weighted-average number of ordinary shares outstanding during the period.

The following tables set out the computations for basic and diluted loss per share:

Year ended 31 December 2019	Loss £'000	Weighted average number of shares	Per-share amount Pence 2019	Per-share amount Pence 2018
Basic and Diluted EPS				
Loss for the period attributable to equity holders of the parent	(3,797)	523,701,761	(0.72)	(0.52)

Diluted earnings per share
Diluted earnings per share is computed by dividing the profit for the period attributable to equity holders of the parent by the weighted-average number of ordinary shares outstanding during the period as adjusted for the effect of all dilutive potential ordinary shares.

The weighted average number of shares and the loss for the year for the purposes of calculating diluted loss per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per share and would not, therefore, be dilutive under the terms of IAS 33.

In order to better demonstrate the performance of the Group, an adjusted loss per share calculation has been presented below which adds back or deducts items typically adjusted for by users of financial statements as they are exceptional items. In 2019 this was share-based payment charges and Impairment of fixed assets. The calculations of the adjusted basic and diluted loss per share amounts are based on the following information:

	2019 £'000	2018 £'000
Loss for the period attributable to equity holders of the parent	(3,797)	(1,859)
Adjustments:		
Costs of acquiring businesses	-	37
Impairment of fixed assets	89	-
Share-based payment charges	729	638
Adjusted earnings	(2,979)	(1,184)
Weighted average number of shares	523,701,761	358,012,732

Adjusted loss per share:	**2019 Pence**	**2018 Pence**
Basic and diluted	(0.57)	(0.33)

8 Intangible assets

Group

Cost and net carrying value	**Goodwill £'000**
Acquisitions in period to 31 December 2018	572
At 31 December 2018 and 31 December 2019	572

Goodwill arose on the acquisition of Goodbody Botanicals Ltd and PhytoVista Laboratories Ltd and represents the excess of the initial consideration over the fair value of the net liabilities acquired.

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8 Intangible assets (continued)

The goodwill was tested for impairment at 31 December 2019 by comparing the carrying value of the cash-generating units with the recoverable amount. The recoverable amount was determined using a value in use methodology based on discounted cash flow projections. The key assumptions used in the value in use calculations were as follows:

(i) The operating cash flows for the business for the three years to 31 December 2022 were taken from the latest board approved forecast;
(ii) No growth in operating cash flows has been assumed for the remainder of the value in use calculation period;
(iii) A pre-tax discount rate of 12% - 15% has been used.

On the basis of the above assumptions and using projection periods of 5 years, 10 years and in perpetuity, the recoverable amount, based on a value in use methodology, is estimated to exceed the carrying amount by the amounts show in the table below. Future annual operating cash inflows, which are most sensitive to the level of new business sales, would need to be consistently lower than the growth assumptions used in the value in use calculation by the percentages shown in the table below to reduce the recoverable amount to below the carrying amount.

Goodbody Botanicals Ltd

	In perpetuity	10 years	5 years
Amount by which recoverable amount, based on value in use, exceeds the carrying amount (£'000)	3,433	3,029	1,130
Reduction in annual revenue growth below the growth assumptions used in value in use calculation required to reduce the recoverable amount below the carrying amount	33%	32%	23%

PhytoVista Laboratories Ltd

	In perpetuity	10 years	5 years
Amount by which recoverable amount, based on value in use, exceeds the carrying amount (£'000)	1,578	1,229	305
Reduction in annual revenue growth below the growth assumptions used in value in use calculation required to reduce the recoverable amount below the carrying amount	32%	29%	14%

9 Property, plant and equipment

Group	Furniture and fittings £'000	Computer equipment £'000	Lease options £'000	Lease right of use asset £'000	Leasehold improvements £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost								
Additions	8	19	85	-	98	56	-	266
Acquisition through business combinations	4	4	-	-	29	155	-	192
At 31 December 2018	12	23	85	-	127	211	-	458
Additions	22	87	-	704	200	177	39	1,229
Disposals	-	(2)	(85)	-	-	(10)	-	(97)
At 31 December 2019	34	108	-	704	327	378	39	1,590
Depreciation and Impairment charges								
Depreciation expense	1	3	85	-	7	18	-	114
At 31 December 2018	1	3	85	-	7	18	-	114
Disposals	-	-	(85)	-	-	(2)	-	(87)
Depreciation expense	6	23	-	88	80	63	-	260
Impairment charge	-	--	-	79	10	-	-	89
At 31 December 2019	7	26	-	167	97	79	-	376
Net carrying amount								
At 31 December 2018	11	20	-	-	120	193	-	344
At 31 December 2019	27	82	-	537	230	292	39	1,207

The depreciation charge for period is recognised within administrative expenses. The depreciation and impairment figures for Property, plant and equipment includes an impairment figure of £89,000. This was calculated using discounted future cashflow modelling which showed a high probability that future cash flows would not cover the capitalised costs of the Right of use shop assets in Goodbody Wellness stores (£79,000) and leasehold improvements in the Goodbody Wellness Bath store (£10,000). This was based on the amount not covered by the forecast future cash generation over the lease period using a pre-tax discount rate of 15%.

9 Property, plant and equipment continued

Company	Furniture and fittings £'000	Computer equipment £'000	Lease right of use asset £'000	Leasehold improvements £'000	Plant and machinery £'000	Assets in the course of construction £'000	Total £'000
Cost							
Additions	6	3	-	43	-	-	52
At 31 December 2018	6	3	-	43	-	-	52
Additions	-	7	529	6	1	23	566
At 31 December 2019	6	10	529	49	1	23	618
Accumulated depreciation							
Depreciation expense	-	-	-	1	-	-	1
At 31 December 2018	-	-	-	1			1
Depreciation expense	1	3	55	9	-	-	68
At 31 December 2019	1	3	55	10	-	-	69
Net carrying amount							
At 31 December 2018	6	3	-	42	-	-	51
At 31 December 2019	5	7	474	39	1	23	549

10 Fixed asset investments

Group	Listed investments £'000	Total £'000
Cost or fair value		
Additions in the period	236	236
Fair value gains	7	7
At 31 December 2018	243	243
Additions in the period	-	-
Disposals in the period	(27)	(27)
Fair value losses	(144)	(144)
At 31 December 2019	72	72
Net carrying amount		
At 31 December 2018	243	243
At 31 December 2019	72	72

Company	Shares in subsidiaries £'000	Listed investments £'000	Total £'000
Cost or fair value			
Additions in the period	445	236	681
Capital contribution relating to share-based payments	22	-	22
Fair value gains	-	7	7
At 31 December 2018	467	243	710
Disposals in the period	-	(27)	(27)
Capital contribution relating to share-based payments	222	-	222
Fair value losses	-	(144)	(144)
At 31 December 2019	689	72	761
Net carrying amount			
At 31 December 2018	467	243	710
At 31 December 2019	689	72	761

The capital contribution relating to share-based payment relates to share options granted by the company to employees of subsidiary undertakings in the group. Refer to note 15 for further details on the group's share option scheme.

At 31 December 2019 the Company held 100% of the nominal value of all classes of the share capital of the companies set out below, except Sativa Germany GmbH where the Company holds 60% of the issued share capital. All of these companies are incorporated in England & Wales, except Sativa Germany GmbH which is incorporated in Germany.

10 Fixed asset investments (continued)

Name of subsidiary	Nature of business	Class of shares
Goodbody Botanicals Ltd	Operational and trading entity. Purchasing raw product, processing and manufacturing end product, marketing and selling CBD products to customers	Ordinary
PhytoVista Laboratories Ltd	Commercial laboratory, performing scientific tests to confirm the chemical make up of CBD and other related products, to 3rd party manufacturers, growers and others	Ordinary
Sativa Cultivation and Extraction Limited	Growing cannabis for research activities, with the objective of expanding into production of cannabidiol and medicinal cannabis products	Ordinary
Goodbody Wellness Limited	Retail operations as wellness centers, owned sites, to be distributed though health and wellbeing channels	Ordinary
Sativa Germany GmbH	Company, aiming to acquire an import / export and wholesale license to distribute cannabidiol products in Germany.	Ordinary
George Botanicals Ltd	Dormant	Ordinary
Goodbody & Blunt Ltd	Dormant	Ordinary
Sativa Research & Development Ltd	Dormant	Ordinary
Saiva Wellness Centres Ltd	Dormant	Ordinary
Sativa Investments Ltd	Dormant	Ordinary
Sativa Cosmetics Ltd	Dormant	Ordinary
Sativa Foundation	Dissolved 14/01/2020	Limited by guarantee

The registered office address of each of the above subsidiaries is The Blue Building, Stubbs Lane, Beckington, Frome, BA11 6TE except for the following:

Sativa Germany GmbH	Thujaweg 1, 76149 Karlsruhe, Germany

11 Inventories

Group

	2019 £'000	2018 £'000
Raw materials	65	86
Finished goods and goods for resale	143	26
	208	112

Inventory costs recognised as an expense within cost of sales in the Group Statement of Comprehensive Income amounted to £436,000.

12 Trade and other receivables

Group	**2019 £'000**	**2018 £'000**
Trade receivables	144	89
Other receivables	308	133
Prepayments and accrued income	48	12
	500	234

Company	**2019 £'000**	**2018 £'000**
Amounts receivable from subsidiaries	3,192	1,560
Prepayments and accrued income	11	3
Other receivables	174	87
	3,377	1,650

All trade and other receivables have been reviewed for expected credit losses. Unless specific agreement has been reached with individual customers, sales invoices are due for payment either 30 or 60 days after the date of the invoice. Trade receivables include amounts that are past due at the reporting date for which no allowance for expected credit losses has been recognised because these amounts are still considered to be recoverable. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An analysis of trade receivables ageing based on due date is set out below.

Group	**2019 £'000**	**2018 £'000**
Not yet overdue	63	31
1 – 30 days overdue	38	45
30 – 60 days overdue	8	8
60+ days overdue	35	5
	144	89

No allowance for expected credit losses were recognised within trade receivables.

The loss allowance for the trade receivables overdue is measured at an amount equal to lifetime expected credit losses and totals £nil, based on current expectation and historical experience.

Management have considered the provisions around impairment of inter-company indebtedness contained within IFRS 9 "Financial Instruments" and concluded that the likelihood of default is low in light of future growth projections, forecasts, and the ability to cross charge loans within the Group as our route to market strategy evolves during the growth phase of development lifecycle. However, as inter-company balances are expected to be repaid over the long-term, and group entities are in an early stage of product commercialisation, management have adopted a prudent approach and recognise that there is an element of uncertainty over future performance and a provision of £625,000 has therefore been recognised in line with the requirements of IFRS 9.

13 Trade and other payables

Group	**2019 £'000**	**2018 £'000**
Trade payables	273	157
Other taxes and social security	55	25
Other payables	25	45
Accruals	77	54
	430	281

Company	**2019 £'000**	**2018 £'000**
Trade payables	123	81
Other taxes and social security	25	10
Other payables	6	34
Accruals	61	47
	215	172

14 Equity share capital

Group and Company	**2019 £'000**	**2018 £'000**
Issued and fully paid share capital:		
569,189,167 ordinary shares of 0.25 pence each	1,423	1,275

	2019 Number
Balance brought forward 1 January 2019	509,900,000
Issued on exercise of share options	24,789,167
Issued on share placing at 4 pence	34,500,000
Number of shares in issue at end of the period	569,189,167

Ordinary shares issued during the year ended 31 December 2019 on the exercise of share options or Warrants were as follows:

Date shares issued	**Instrument**	**Number of shares issued**	**Issue price (pence)**
11 April 2019	Options	6,666,667	2.25
5 May 2019	Options	500,000	1.00
21 June 2019	Warrants	8,098,000	0.5
21 June 2019	Warrants	2,024,500	1.00
21 June 2019	Options	500,000	1.00
3 September 2019	Options	7,000,000	0.5

Details of outstanding options over the shares of the Company are provided in note 15.

The total share issue costs during the period ended 31 December 2019 of £34,000 have been deducted from the share premium account.

15 Share-based payments and warrants

During the period ended 31 December 2019, the Group granted a number of share options which have been treated as equity-settled arrangements. A share based payment charge of £729,000 (2018: £638,000) was recognised in the year of which £579,000 (2018: £638,000) was in relation to options issued to employees and £150,000 (2018: £nil) in respect of options granted in relation to sponsorship of a car in the 2019 Ginetta Junior Championship. Non-employee options were valued based on the market value of services provided. This is charged to the profit and loss and share based payment reserve.

All employee options issued to date either had an immediate vesting date, a fixed future vesting date, usually 3 years, or in the case of employees mainly 1/3 per year over three years or performance based.

The following is a summary of the movements in outstanding share options.

Year ended 31 December 2019

	Number of options	Weighted average exercise price (pence)
Options brought forwards at 1 January 2019	134,696,154	0.84
Granted during the period	7,076,923	6.50
Exercised during the period	(14,666,667)	1.33
Surrendered / forfeited during the period	(8,346,154)	2.61
Outstanding at 31 December 2019	118,760,256	0.93
Exercisable as at 31 December 2019	98,575,353	0.59

The 4,000,000 options surrendered during the period by Geremy Thomas are only surrendered if certain options issued since admission vest, the remaining 4,346,154 option surrendered / forfeited in the year relate to holders leaving the company or passing away.

Of the options outstanding at 31 December 2019, 93,700,852 options have an exercise price of 0.5 pence, 1,000,000 options have an exercise price of 1 pence, 3,350,000 options have an exercise price of 1.5 pence, 13,555,558 options have an exercise price of 2.25 pence and 4,076,923 options have an exercise price of 6.5 pence.

Number of options exercised	Exercise price (pence)	Sativa Group Plc share price on date of exercise (pence)	Fair value per option at date of grant (pence)
6,666,667	2.25	7.25	10.30
500,000	1.00	7.25	0.40
500,000	1.00	5.88	0.40
7,000,000	0.50	6.13	0.40
14,666,667			

15 Share-based payments and warrants (continued)

The fair values of the options granted in the period ended 31 December 2019 were estimated at the date of grant using a Black-Scholes option pricing model. The inputs to the option pricing model are summarised below.

Date of grant	Number of options granted	Exercise price (pence)	Share price at grant date (pence)	Fair value per option at date of grant (pence)
15 January 2019	923,077	6.50	5.925	4.30
11 February 2019	3,076,923	6.50	5.500	4.0
15 January 2019	3,076,923	6.50	5.925	4.30
	7,076,923			

Expected volatility	100%
Expected dividend yield	0%
Expected option life	5 years
Risk-free interest rate	0.9%
Employees remaining employed in the group	100%

(*) – the share price at date of grant was estimated based on the market value of shares issued on the share placing at 29 March 2018.

Future share price volatility was estimated by using historic share price volatility over the most recent period.

The average remaining contractual life of the options outstanding at 31 December 2019 was 4.3 years.

Warrants

The following is a summary of the movements in outstanding warrants.

Year ended 31 December 2019

	Number of warrants	Weighted average exercise price (pence)
Brought Forward 1 January 2019	10,122,500	0.6
Granted during the period	30,825,000	4.75
Exercised during the period	(10,122,500)	0.6
Outstanding at 31 December 2019	30,825,000	4.75
Exercisable as at 31 December 2019	-	-

The warrants outstanding at 31 December 2019 all have an exercise price of 4.75 pence. This price was set based on the market price expected at issue. They were offered as an incentive to shareholders purchasing shares in the fund raise in December 2019. They could apply for one warrant per share purchased.

15 Share-based payments and warrants (continued)

The fair values of the warrants granted in the period ended 31 December 2019 were estimated at the date of grant using a Black-Scholes option pricing model. The inputs to the option pricing model are summarised below.

Date of grant	Number of warrants granted	Exercise price (pence)	Share price at grant date (pence)	Fair value per option at date of grant (pence)
19 December 2019	30,825,000	4.75	4.75	2.9

Expected volatility	100%
Expected dividend yield	0%
Expected option life	3 years
Risk-free interest rate	0.9%

Future share price volatility was estimated by using historic share price volatility over the most recent period.

The average remaining contractual life of the warrants outstanding at 31 December 2019 was 3 years.

16 Contingent liabilities

The Group are in receipt of a potential claim from an ex-employee regarding the exercise of share options. The maximum exposure of a potential claim is £315,000. The Directors believe it will be satisfactorily resolved without a settlement.

17 Capital management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern so that it can provide a return to shareholders and benefits for other stakeholders.

The capital monitored by the group consists of all components of equity attributable to owners of the parent as set out in the Group Statement of Changes in Equity and cash and cash equivalents.

The Group currently maintains a capital structure which is appropriate for its needs principally through a combination of cash flow management and forecasting and the issue of new shares, primarily in connection with the funding of new business streams.

The Group is not subject to externally imposed capital requirements other than the minimum capital requirements imposed by the Companies Act 2006 on all public limited companies.

18 Leases

On inception of the lease, a right of use asset and lease liability is recognised based on the discounted payments over the lease term. The incremental borrowing rate used based on current market rates was 2% for head office and 6% on the retail premises.

There were no material leases in 2018 so no comparators have been recalculated using FRS 16.

Group

	Months to end of Lease	Right of use asset £'000	Lease liability < 1year £'000	Lease liability 1-2 Years £'000	Lease liability 2-5 Years £'000
Premises	10-54	531	167	143	305
Equipment	23-24	6	3	3	-
Total values		537	170	146	305

Company

	Months to end of Lease	Right of use asset £'000	Lease liability < 1year £'000	Lease liability 1-2 Years £'000	Lease liability 2-5 Years £'000
Premises	54	470	102	104	268
Equipment	24	4	2	2	-
Total values		474	104	106	268

19 Pension schemes

The Group operated a defined contribution pension scheme for employees during the period. The pension cost charge represents contributions payable by the Group into the scheme and amounted to £23,000 (2018:£2,000). At 31 December 2019, trade and other payables included £1,000 (2018:£1,000) payable to the Group pension scheme.

20 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks, net of outstanding overdrafts as follows.

Group	2019 £'000	2018 £'000
Cash and bank balances	1,993	3,743

Company	2019 £'000	2018 £'000
Cash and bank balances	1,623	3,646

21 Related party transactions

Sativa Group Plc is the parent company of the Group. There was no overall control of Sativa Group Plc.

Balances between the Company and its wholly owned subsidiaries, which are related parties of the Company, are disclosed in notes 12 and 13. During the year, the Company recharged £71,883 (2018: £560,000) of costs to its wholly owned subsidiaries. Details of transactions between the Company and other related parties are disclosed below.

At 31 December 2019, trade and other payables in the Company included £995.82 (2018: £54,847) payable to Carbon Managers Limited, a company in which Mr Thomas is a director and major shareholder. This amount is in respect of expenses payable to Geremy Thomas as a director of the Company.

Amounts charged by Angus Kerr for his services as a director of the Company are payable to Elixir Strategy Limited, a company in which Mr Kerr is a director and major shareholder. Amounts charged by Jonathan Wearing for his services as a director of the Company are payable to Hurstmount Limited, a company in which Mr Wearing is a director and major shareholder. At 31 December 2019, trade and other payables in the Company included £1,250 (2018: £1,250) payable to Elixir Strategy Limited, Nil (2018: £3,000) payable to Hurstmount Limited and £15,264 (2018: £2,500) payable to Mark Blower for directors fees due. Details of directors' fees paid during the year are disclosed in note 5.

During the period in addition to directors' fees as disclosed in note 5, the Group was charged rent of £111,000 (2018: £37,000) by Carbon Managers Limited. Other expenses paid to Carbon managers by the group totalled £6,561. At 31 December 2018, trade and other payables in the Group included £1,207 (2018: £83,535) payable to Carbon Managers Limited. Mark Blower was also paid £2,544.97 travel expenses.

Key management are considered to be the executive directors of the Company as well as the subsidiary directors and Company Secretary. The remuneration of the directors of the company is disclosed in note 5 of these financial statements. The total remuneration of key management is set out below:

	2019 £'000	2018 £'000
Salaries, bonuses and fees and related employer national insurance	530	271
Share-based payments	290	543
	820	814

22 Post balance sheet events

There has been two major post balance sheet events that have impacted on the business. Firstly, the COVID-19 world pandemic has forced the closure of all retail stores in line with other businesses and government requirements. The rest of the business has significantly reduced turnover, therefore investments in sales, marketing and other discretionary areas spend have been significantly reduced. Staff have been furloughed across the business and longer-term reductions in headcount and other costs are planned.

Secondly, Sativa Group on the 2nd June 2020 entered into an agreement to undertake a scheme of arrangement with Stillcanna Inc a company registered in Canada that grows and extracts CBD oil in Europe. This strengthens the Group's balance sheet, and allows the new group to have complete control from seed to consumer strategy and the integration allows novel food status and other synergies upon consolidation to be achieved.