KIARO BRANDS INC.

Consolidated Financial Statements

For the Thirteen Months Ended January 31, 2020,
and the Year Ended December 31, 2018

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Board of Kiaro Brands Inc.:

Opinion

We have audited the consolidated financial statements of Kiaro Brands Inc. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at January 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the thirteen months then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred losses and negative cash flows from operations since incorporation, and as at January 31, 2020, the Company had an accumulated deficit of $15,122,382. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements of the Company for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on September 25, 2019.

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Mississauga, Ontario

MNP LLP

June 19, 2020

Chartered Professional Accountants

Licensed Public Accountants

MNP

KIARO BRANDS INC.

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	January 31, 2020	December 31, 2018
ASSETS		$	$
Current			
Cash and cash equivalents		1,418,764	6,103,354
Trade and other receivables	7	162,460	8,611
Prepaids and deposits	8	207,912	106,489
Inventory	9	841,829	-
Investments in marketable securities	10	2,986,518	-
Loan receivable	11	297,382	-
Net investment in finance lease	13	130,483	-
Total current assets		6,045,348	6,218,454
Non-current assets			
Lease deposits	8	183,742	117,504
Property and equipment	12	1,749,072	928,357
Right-of-use assets	13	4,944,646	250,000
Net investment in finance lease	13	460,908	-
Intangible assets and goodwill	14	608,588	-
Total non-current assets		7,946,956	1,295,861
Total assets		13,992,304	7,514,315
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	15	1,462,426	558,764
Due to related parties	18	18,861	199,974
Current portion of Lease liability	13	683,979	-
Current portion of purchase liability	5	370,180	-
Current portion of long-term liabilities	16	694,055	-
Total current liabilities		3,229,501	758,738
Non-current liabilities			
Long-term portion of lease liability	13	2,487,121	-
Long-term portion of purchase liability	5	103,230	-
Embedded derivative liability	16	1,285,000	-
Long-term liabilities	16	5,836,712	243,967
Total non-current liabilities		9,712,063	243,967
Total liabilities		12,941,564	1,002,705
SHAREHOLDERS' EQUITY			
Share capital	17	14,987,041	8,720,363
Reserves	17	1,186,081	410,379
Accumulated deficit		(15,122,382)	(2,619,132)
Total shareholders' equity		1,050,740	6,511,610
Total liabilities and shareholders' equity		13,992,304	7,514,315

Going concern (Note 1)
Commitment and contingencies (Note 22)
Subsequent events (Note 25)

(The accompanying notes are an integral part of these consolidated financial statements)

On behalf of the board:

"Daniel Petrov"

Daniel Petrov

KIARO BRANDS INC.

Consolidated Statements of Loss and Comprehensive Loss
For the Thirteen Months Ended January 31, 2020 and the Year Ended December 31, 2018
(Expressed in Canadian Dollars)

	Notes		January 31, 2020		December 31, 2018
Revenue		$	5,171,836	$	-
Cost of sales			3,829,871		-
Gross profit			1,341,965		-
Operating expenses					
Consulting	18		889,247		617,805
Depreciation and amortization	12, 13		1,988,336		43,930
Maintenance			281,896		80,775
Marketing and brand development			577,796		469,442
Meals and entertainment			24,603		41,319
Office and administration			636,494		179,502
Professional fees			583,199		396,028
Rent			-		514,086
Salaries and employee benefits	18		3,321,396		1,749,884
Share-based compensation	17		798,174		318,000
Travel			128,166		135,744
Website development			-		116,992
Inventory write-down	9		52,940		-
Goodwill impairment	14		445,000		-
			9,727,247		4,663,507
Other income (expenses)					
Change in fair value of marketable securities	10		(2,393,055)		-
Change in fair value of derivative liabilities	16		(15,143)		-
Lease termination loss and loss on sub-lease			(135,282)		-
Gain from sale of assets			-		2,182,480
Other income			-		13,650
Option Expense			-		(100,000)
Unrealized foreign exchange loss	10		(19,215)		-
Impairment of long-lived assets	12, 13		(297,878)		-
Finance income			48,121		81,710
Finance expenses	5, 13, 16		(1,305,516)		(36,346)
			(4,117,968)		2,141,494
Loss and comprehensive loss		$	(12,503,250)	$	(2,522,013)
Loss per share, basic and diluted		$	**(0.25)**	$	**(0.16)**
Weighted average common shares outstanding - basic and diluted			**50,677,414**		**16,148,965**

(The accompanying notes are an integral part of these consolidated financial statements)

KIARO BRANDS INC.
Consolidated Statement of Changes in Shareholders' Equity
For the Thirteen Months Ended January 31, 2020 and the Year Ended December 31, 2018
(Expressed in Canadian Dollars)

		Common Shares		Long-Term	Share-based		
		Number of		Liability	Payment		Total
	Notes	**Shares**	**Amount**	**Reserve**	**Reserve**	**Deficit**	**Equity**
			$	$	$	$	**$**
Balance on December 31, 2017		7,625,000	763	-	-	(97,119)	**(96,356)**
Shares issued for cash		8,369,600	8,369,600	-	-	-	**8,369,600**
Share issued on conversion of loans		350,000	350,000	-	-	-	**350,000**
Share-based compensation		-	-	-	318,000	-	**318,000**
Equity component of convertible loan		-	-	92,379	-	-	**92,379**
Net loss and comprehensive loss for the period		-	-	-	-	(2,522,013)	**(2,522,013)**
Balance on December 31, 2018		16,344,600	8,720,363	92,379	318,000	(2,619,132)	**6,511,610**
Share issued on conversion of loan	16	600,000	353,348	(92,379)	-	-	**260,969**
Bonus shares issued	17	5,000	5,000	-	-	-	**5,000**
Kiaro shares issued for cash	17	68,000	68,000	-	(68,000)	-	**-**
Elora shares issued for cash	6	3,402,110	83,495	-	-	-	**83,495**
Balance on September 8, 2019		20,419,710	9,230,206	-	250,000	(2,619,132)	**6,861,074**
Aura shares exchanged for Kiaro	6, 17	(17,017,600)	-	-	-	-	**-**
Elimination of Elora Shares	6, 17	(3,402,110)	(83,495)	-	-	-	**(83,495)**
Amalgamation shares for Elora	6, 17	3,402,110	28,889	-	-	-	**28,889**
Kiaro shares issued for Aura (1:5 exchange)	6,17	85,088,000	-	-	-	-	**-**
Shares issued pursuant to purchase agreement	13, 17	925,925	400,000	-	-	-	**400,000**
Shares issued pursuant to services rendered	17	100,000	12,654	-	-	-	**12,654**
Shares issued in financing	10, 17	8,532,423	5,398,787	-	-	-	**5,398,787**
Share-based compensation	17	-	-	-	793,174	-	**793,174**
Promissory note warrants value	16	-	-	142,907	-		**142,907**
Net loss and comprehensive loss for the period		-	-	-	-	(12,503,250)	**(12,503,250)**
Balance on January 31, 2020		**98,048,458**	**14,987,041**	**142,907**	**1,043,174**	**(15,122,382)**	**1,050,740**

(The accompanying notes are an integral part of these consolidated financial statements)

KIARO BRANDS INC.
Consolidated Statements of Cash Flows
For the Thirteen Months Ended January 31, 2020 and the Year Ended December 31, 2018
(Expressed in Canadian Dollars)

	January 31, 2020	December 31, 2018
	$	$
Cash provided by (used in):		
Operating activities:		
Net loss	(12,503,250)	(2,522,013)
Non-cash items:		
Depreciation and amortization	1,988,336	93,930
Share-based compensation	798,174	318,000
Shares issued for services	12,654	
Unrealized foreign exchange loss	19,215	-
Finance expense	1,298,775	36,346
Unrealized loss on term investment	2,393,055	-
Loss on fair value of embedded derivative	15,043	-
Gain from sale of assets	-	(2,182,480)
Lease termination loss and loss on sub-lease	135,282	-
Inventory write-down	52,940	-
Impairment of long-lived assets	297,878	-
Goodwill impairment	445,000	-
Changes in non-cash working capital:		
Receivables	(124,847)	(1,503)
Prepaids and Deposits	(155,887)	(106,489)
Inventory	(894,769)	-
Accounts payable and accrued liabilities	410,526	516,569
Due to related parties	(219,276)	137,942
	(6,031,151)	(3,709,698)
Investing activities:		
Property and equipment	(1,306,321)	(972,286)
Lease deposit	-	(117,504)
Loan receivable	(297,382)	-
Business Combination	(530,635)	-
Net proceeds from sale of lease	-	2,182,480
Acquisition of lease properties	(1,200,000)	-
	(3,334,338)	1,092,690
Financing activities:		
Payments received on net investment in finance lease	109,165	-
Payments on lease obligations	(1,479,766)	
Proceeds from issuance of convertible debentures	4,201,500	
Proceeds from issuance of promissory notes	1,850,000	
Cash from shares issued	-	8,369,599
Cash from subscription receivable	-	713
	4,680,899	8,370,312
Net change in cash and cash equivalents	(4,684,590)	5,753,304
Cash and cash equivalents, beginning	6,103,354	350,050
Cash and cash equivalents, ending	**1,418,764**	**6,103,354**

Comprised of:	$	$
Cash at bank	1,418,764	113,354
Term deposits	-	5,990,000
Total cash and equivalents	**1,418,764**	**6,103,354**

(The accompanying notes are an integral part of these consolidated financial statements)

1) NATURE OF OPERATIONS AND GOING CONCERN

Kiaro Brands Inc. (“Kiaro” or the “Company”) was formed on September 9, 2019 through the amalgamation of Aura Cannabis Inc. (“Aura”) and Elora Capital Ltd. (“Elora”) (Note 6), via an amalgamation agreement entered into on July 24, 2019. Aura was incorporated under the Business Corporation Act of British Columbia on December 11, 2017 and was formed to own and operate cannabis retail stores in various provinces of Canada. Elora was incorporated under the Business Corporation Act of British Columbia on March 13, 2018 and was formed for the primary purpose of identifying and evaluating assets or business with a view of completing a transaction. To effect the Amalgamation, each issued and outstanding Aura share was cancelled and the holder of each Aura share received five common shares of Kiaro; and each issued and outstanding Elora share was cancelled, and the holder of each Elora share received one common share of Kiaro. Following the amalgamation, both Aura and Elora were dissolved.

Going Concern Assumption

These consolidated financial statements for the period ended January 31, 2020 and the year ended December 31, 2018 have been prepared on the going concern basis, which assumes that the Company will continue to operate and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company is in the expansion phase by opening and acquiring cannabis retail locations throughout Canada. While these consolidated financial statements have been prepared on a going concern basis, the Company continues to remain dependent on its ability to obtain sufficient funding to sustain operations and continue with its current expansion projects. While the Company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. Several alternatives are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. The Company has incurred losses and negative cash flows from operations and as at January 31, 2020 has an accumulated deficit of $15,122,382. These factors indicate a material uncertainty that may cast significant doubt about the Company being able to continue as a going concern.

The consolidated financial statements for the period ended January 31, 2020 do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments would then be necessary to the carrying value of assets and liabilities, the reported revenues and expenses and the statements of financial position. Such adjustments, if required, could be material.

2) BASIS OF PRESENTATION

a) Statement of Compliance

The Company's consolidated financial statements have been prepared in accordance with and using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements were approved by the Board of Director on June 19, 2020.

2) BASIS OF PRESENTATION *(continued)*

b) Basis of measurement

These consolidated financial statements, presented in Canadian Dollars, have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently by the Company and its wholly owned subsidiaries for the periods presented.

c) Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. These consolidated financial statements include the operating results of acquired entities from the date control commences until the day control ceases.

The operating subsidiaries the Company has control over are as follows:

Subsidiaries	Percentage Ownership
National Cannabis Distribution Inc.	100%
Kiaro Retail BC Ltd.	100%
2209917 Alberta ltd.	100%

d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiaries is the Canadian Dollar.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash balances with banks and all highly liquid short-term deposits with original terms to maturity at the date of acquisition of 90 days or less.

b) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost of inventories is measured at first in first out ("FIFO") basis. Cost includes the acquisition cost at the date of purchase and costs directly attributable to bringing the inventory to the location and condition necessary for distribution to customers. Net realizable value is the estimated selling price, in the ordinary course of business, less appropriate selling and distribution expenses. When inventory is sold, the carrying amount of the inventory is recognized as an expense in cost of goods sold in the period in which the related revenue is recognized. The Company also reviews inventory for obsolete, redundant, damaged and slow-moving goods and any such inventories identified are written down to net realizable value.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c) Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bringing the asset to the location and condition necessary for its use in operations. When property and equipment include significant components with different useful lives, they are recorded and depreciated separately. Estimated useful lives are reviewed at the end of each reporting period.

The Company recognizes in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the statement of net loss as an expense as incurred. Depreciation is not recorded on property and equipment that is not yet available for use.

Depreciation is recognized so as to write off the cost of items of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives of the Company's property and equipment are as follows:

Furniture and fixture	5 years
Computer equipment	1 – 3 years
Leasehold improvement	3 – 5 years
Software	2 – 3 years

Assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy. The rate for calculating the capitalized financing cost is based on the Corporation's weighted average cost of borrowing experienced during the reporting period. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Right-of-use assets

The Company applies a single recognition and measurement approach for all leases, except for short-term leases (with term of less than 12 months) and leases of low-value assets. The Company recognizes right-of-use assets representing the right to use the underlying asset and lease liabilities representing its obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The Company has also elected to apply the practical expedient to not separate non-lease components (such as services and maintenance) from lease components. Instead, it may account for the entire contract as a single lease contract. The lease liability is subsequently increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a modification such as, a change in lease payments or a change in the assessment of an option to purchase the underlying asset.

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

e) Intangible assets

Intangible assets with finite useful lives are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful life. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of wholesale cannabis licenses which are carried at cost less accumulated impairment losses.

f) Goodwill

Goodwill arising in a business combination is recognized as an asset at the date of control (acquisition date). Goodwill is measured as the excess of the cost of the acquisition over the Company's interests in the net fair value of the identifiable net assets, liabilities and contingent liabilities of the acquiree recognized at the date of acquisition.

For the purposes of assessing impairment, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the combination. Each cash-generating unit to which goodwill is allocated represents the lowest level at which cash flows are largely independent from cash flows of other assets or groups of assets. The impairment of non-financial assets in Note 2g) describes how goodwill is tested for impairment.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g) Impairment of non-financial assets

The Company assesses at each date of the statement of financial position whether a non-financial asset is impaired.

Property and equipment, and definite life intangibles are reviewed for indicators of impairment at the end of each financial reporting period or whenever events or changes in circumstances indicate that the carrying amount of the asset or related cash generating unit ("CGU") may not be recoverable. If any such indication exists, then the asset's or CGU's recoverable amount is estimated.

Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each CGU containing the assets to its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. The discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds the estimated recoverable amount. Impairment losses are recognized in net loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of goodwill first and then other assets in the CGU on a pro-rata basis. Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. An impairment loss for goodwill is never reversed. The carrying amount after a reversal must not exceed the carrying amount (net of depreciation or amortization) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized in the statements of net loss.

h) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3, Business Combinations (IFRS 3). The consideration transferred by the Company to obtain control of an entity is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognizes identifiable assets acquired and liabilities assumed, including contingent liabilities, in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at the acquisition-date fair values. Goodwill is stated after separate recognition of identifiable assets. It is calculated as the excess of the sum of (a) fair value of consideration transferred, (b) the recognized amount of any non-controlling interest in the acquiree and (c) acquisition-date fair value of any existing equity interest that the Company has in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair value of identifiable net assets exceeds the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in net loss immediately.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company as consideration cannot be specifically measured, they are measured at fair value of the share-based payment. The fair value of the share-based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

Equity settled transactions

The costs of equity settled transactions with employees are measured by reference to the fair value at the date on which they are granted, incorporating the Black-Scholes option pricing model.

The costs of equity settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative cost is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do not ultimately vest.

j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all options and warrants outstanding that may add to the total number of common shares. As the Company incurred losses for the period ended January 31, 2020 and the year ended December 31, 2018, the diluted earnings per share equals the basic shares since the effects of options and warrants would be anti-dilutive.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax expense are recognized in net loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the tax rates enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net loss, comprehensive income (loss) or in equity depending on the item to which the adjustment relates. Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

l) Equity

Share capital

Share capital represents the amount received on the issuance of common shares. Transaction costs directly attributable to the issuance of common shares are recognized as a reduction of share capital. If shares are issued when options or warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus or warrants. In addition, if common shares are issued as consideration for the acquisition of non-monetary assets, they are measured at the fair value of the assets or services received, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the assets or services received, the common shares are measured at the fair value of the shares issued.

Options and warrants reserves

Options and warrants reserves includes charges related to share-based compensation until such equity instruments are exercised, as well as expired or forfeited options and warrants.

m) Revenue recognition

Revenue recognition is based on a 5-step approach which includes identifying the contract with the customer, identifying the performance obligations, determining the individual transaction price, allocating the transaction price to the performance obligations in the contract and recognizing revenue when the relevant performance obligations are satisfied. Revenue is recognized when the entity satisfies the performance obligation upon delivery and acceptance by the customer.

Revenue from retail of cannabis, merchandise and accessory sales are recognized at point of sale when the customer takes control of the goods in an amount that reflects the consideration the Company expects to receive in exchange for the goods. The Company considers its performance obligation to be satisfied at the point of sale.

Revenue from wholesale of cannabis are recognized when control of the goods has been transferred, being when the goods are delivered to customers and when all performance obligations have been fulfilled.

The amounts recognized as revenue represent the fair values of the considerations received or receivable from third parties on the sales of goods to customers, net of goods and services taxes and less returns, and discounts, at which time there are no conditions for the payment to become due other than the passage of time.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Financial instruments

The following table summarizes the classification of the Company's financial instruments under IFRS 9 Financial Instruments ("IFRS 9"):

Financial instrument	Classification under IFRS 9
Cash and cash equivalents	Amortized cost
Trade and other receivables (exclude GST receivable)	Amortized cost
Loan receivable	Amortized cost
Investments in marketable securities	Fair value through profit or loss
Net investment in finance lease	Amortized cost
Accounts payable and accrued liabilities (exclude PST)	Amortized cost
Due to related parties	Amortized cost
Embedded derivative liability	Fair value through profit or loss
Lease liability	Amortized cost
Purchase liability	Amortized cost
Long-term liabilities	Amortized cost

Financial assets

The classification of financial assets is based on the Company's assessment of its business model for holding financial assets and the contractual terms of the cash flows. The classification categories are as follows:

- Financial assets measured at amortized cost: assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial assets at fair value through other comprehensive income ("FVOCI"): assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial assets at fair value through profit or loss ("FVTPL"): assets that do not meet the criteria for amortized cost or FVOCI.

Financial assets are initially measured a fair value and are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Financial liabilities

The classification of financial liabilities is determined by the Company at initial recognition. The classification categories are as follows:

- Financial liabilities measured at amortized cost: financial liabilities initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in the consolidated statements of loss and comprehensive loss.

- Financial liabilities measured at FVTPL: financial liabilities measured at fair value with changes in fair value and interest expense recognized in the consolidated statement of loss and comprehensive loss.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n) Financial instruments (continued)

Financial liabilities (continued)

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss and comprehensive loss.

Impairment of financial assets

At each reporting date, the Company assesses whether a financial as set or group of financial assets is impaired under the expected credit loss ("ECL") model. Loss allowances are measured based on (i) ECLs that result from possible default events within the 12 months after the reporting date ("12-month ECL"), or (ii) ECLs that result from all possible default events over the expected life of a financial instrument ("lifetime ECLs").

For short-term trade and other receivables, the Company applies the simplified approach and has calculated ECLs based on lifetime ECLs. Where information exists, the Company establishes a loss rate based on historical normalized credit loss experience. The loss rate is based on the payment profiles and aging of trade receivables and is adjusted to reflect current and forward-looking information on macroeconomic factors.

The amortized cost of the financial asset is reduced by impairment losses at an amount equal to the lifetime expected credit losses. Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amounts of the assets and the loss is recognized in the consolidated statements of loss and comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance for doubtful accounts.

o) Critical accounting estimates and judgments

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates

Business combinations

Judgement is used in determining whether an acquisition is a business combination or an asset acquisition. For a business combination, judgement is also made on identifying assets acquired. In determining the allocation of purchase price, the most significant estimates generally relate to the present value of future consideration and fair value of intangible assets. Management exercises judgment in estimating the discount rate to be used to determine the present value of future consideration. Identified intangible assets are fair valued using appropriate valuation techniques. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

Useful lives of property and equipment and impairment

Depreciation of property and equipment is dependent upon estimates of useful lives and residual values which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Critical accounting estimates and judgments *(continued)*

Goodwill and intangible assets

Goodwill and indefinite life intangible assets are tested annually for impairment by comparing the carrying value of each cash-generating unit ("CGU") containing the assets to its recoverable amount. Goodwill is allocated to CGUs or groups of CGU's for impairment testing based on the level at which it is monitored by management, and not at a level higher than an operating segment. Goodwill is allocated to those CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill arose, which requires the use of judgment. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds it recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on a fair value less costs of disposal. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. The key assumptions used in the calculation of the recoverable amount relate to future cash flows and growth projections, future weighted average cost of capital and the terminal growth rate. These key assumptions are based on historical data from internal sources as well as industry and market trends.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques.

The carrying value of loans and borrowings for disclosure purposes is derived using the amortized cost method, by calculating the accretion expense at market-related interest rate less the actual interest expense. Where the carrying value does not approximate the fair value of financial assets and liabilities, valuation techniques such as the discounted cash flow (DCF) model are used.

The fair value of conversion feature is dependent upon estimated probability and timing of conversion. In addition estimated benefit the holder will get from conversion were also considered in determining the fair value of the conversion feature.

The inputs to the appropriate models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments also include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Share-based compensation and warrants

The estimation of share-based compensation and warrants requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of share options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

o) Critical accounting estimates and judgments *(continued)*

Income taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Inventory

Inventory is carried at the lower of cost and net realizable value. In estimating net realizable value, the Company considers the impact of obsolescence, price fluctuation and fluctuations in inventory levels.

Judgments

Assessing the probability of utilizing deferred tax assets

Deferred tax assets are recognized for unused tax losses and credits to the extent that it is probable that taxable income will be available against which the losses can be utilized. These estimates are reviewed at every reporting date. Information about assumptions and estimation based upon the likely timing and the level of the reversal of existing timing differences, future taxable income and future tax planning strategies, is included in Note 20. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

Cash-generating units

Assets are grouped into CGUs at the lowest level of separately identified cash flows. The determination of a CGU is based on management's judgment and is an assessment of the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Going concern

Determining if the Company has the ability to continue as a going concern is dependent on its ability to secure debt and equity financing and to achieve profitable operations. Certain judgments are made when determining if and when the Company will secure debt and equity financing, and achieve profitable operations.

4) NEW AND REVISED STANDARDS

The Company has adopted the following new or amended IFRS standards for the period ended January 31, 2020:

(a) IFRS 16 Leases

Effective January 1, 2019 (hereafter referred to as the "date of initial application"), the Company adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

4) NEW AND REVISED STANDARDS *(continued)*

(a) IFRS 16 Leases *(continued)*

Transition

The Company applied the changes in the accounting policies resulting from IFRS 16 retrospectively with the cumulative effect of initially applying IFRS 16 recognized as an adjustment to the opening balance of retained earnings at January 1, 2019. The comparative information contained within these consolidated financial statements has not been restated and continues to be reported under previous lease standards. In addition, the following practical expedients were applied:

- The Company did not reassess whether a contract is, or contains, a lease at the date of initial application of IFRS 16 Leases. Instead, the Company applied IFRS 16 to all contracts that were previously identified as leases under IAS 17 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. Contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. As a result, the definition of a lease under IFRS 16 has only been applied to contracts entered into (or changed) on or after the date of initial application.

Right-of-use (ROU) assets related to these leases were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments. The following practical expedients were also applied upon transition to IFRS 16:

- excluded initial direct costs from the measurement of ROU assets at the date of initial application; and
- used hindsight when determining the lease term where the contract contains options to extend or terminate the lease;

The application of the above practical expedients did not result in any impact to retained earnings. The application of the standard has resulted in a change in the Company's accounting policy for recognition of leases.

Previous Accounting Policy under IAS 17

The determination of whether an arrangement was (or contained) a lease was based on the substance of the arrangement at the inception of the lease. The arrangement was, or contained, a lease if fulfilment of the arrangement was dependent on the use of a specific asset and the arrangement conveyed a right to use the asset, even if that asset was not explicitly specified in an arrangement.

A lease was classified at the inception date as a finance lease or an operating lease. A lease that transferred substantially all the risks and rewards incidental to ownership to the Company was classified as a finance lease.

Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges were recognized in net finance expenses (income) in net loss. A leased asset was depreciated over the term of the lease.

An operating lease was a lease other than a finance lease. Operating lease payments were recognized in net loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

4) NEW AND REVISED STANDARDS *(continued)*

(a) IFRS 16 Leases *(continued)*

<u>New Accounting Policy under IFRS 16</u>

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right of control for the use of an identified asset for a period of time in exchange for consideration. From January 1, 2019, the Company recognized a right-of-use asset ("ROU asset") and a lease liability at the lease commencement date, which is the date the leased asset is available for use. The ROU asset is initially measured based on the initial amount of the lease liability. The lease liabilities include the net present value of the following lease payments:

- fixed payments (including any in-substance fixed payments, less any lease incentives receivable);
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- exercise price of any purchase option if the Company is reasonably certain to exercise that option; and
- payments for penalties for terminating the lease, if the lease term reflects the Company exercising that option.

The ROU assets are depreciated to the earlier of the end of useful life of the ROU asset or the lease term using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits.

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the ROU asset can be periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

Lease payments are discounted using the interest rate implicit in the lease or if that rate cannot be readily determined, the Company's incremental borrowing rate, which is the rate of the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The Company used an incremental borrowing rate to measure the lease liabilities in the opening balance sheet at January 1, 2019 of 17.95%.

ROU assets are measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before commencement date less any lease incentives received, any initial direct costs, and restoration costs.

The lease liability is classified and accounted for at the amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset unless it has been reduced to zero. Any further reduction in the lease liability is then recognized in profit or loss.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or whether the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset.

(Expressed in Canadian Dollars)

4) NEW AND REVISED STANDARDS *(continued)*

(a) IFRS 16 Leases *(continued)*

When the Company acts as an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. The Company assesses the lease classification of a sub-lease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the ROU asset. If this is the case, then the lease is accounted for as a net investment in finance lease. If not, then it is an operating lease. As part of this assessment the Company considers certain indicators such as whether the lease is for the major part of the economic life of the ROU asset.

The following table reconciles the difference between operating lease commitments disclosed under IAS 17 at December 31, 2018, discounted using the incremental borrowing rate at the date of initial application of IFRS 16 and lease liabilities recognized in the statement of financial position at the date of initial application of IFRS 16.

	January 1, 2019
	$
Operating lease commitments as at December 31, 2018	2,663,042
Operating lease commitments discounted using the incremental borrowing rate at January 1, 2019	(841,807)
Lease liabilities recognized as at January 1, 2019	**1,821,235**

(b) IFRIC 23 Uncertainty over Income Tax Treatments

In June 2017, the IFRS Interpretation Committee issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12 Income Taxes are applied where there is uncertainty over income tax treatments. IFRIC 23 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively with early adoption permitted. The Company adopted IFRIC 23 in its consolidated financial statements for the period beginning January 1, 2019. The adoption of this standard did not have material impact on the Company's consolidated financial statements.

(c) IFRS 9 Financial Instruments (Amendments)

In October 2017, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 Financial Instruments, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in November 2017, to address the classification of certain prepayable financial assets. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held, as well as consideration of whether certain eligibility conditions are met. The amendments are effective for annual period beginning on or after January 1, 2019. The adoption of this standard did not have material impact on the Company's consolidated financial statements.

(d) New and revised IFRS standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods noted below. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

(Expressed in Canadian Dollars)

4) NEW AND REVISED STANDARDS *(continued)*

(d) New and revised IFRS standards issued but not yet effective *(continued)*

(i) IAS 1 Presentation of Financial Statements

In October 2018, the International Accounting Standards Board (IASB) issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2019. The amendments clarify the definition of material and how it should be applied, as well as align the definition of material across IFRS standards and other publications. The amended definition of material states:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The Company does not expect these amendments to have material impact on its consolidated financial statements.

5) ACQUISITION OF NCD

Effective March 18, 2019, the Company acquired 100% ownership in National Cannabis Distribution Inc. ("NCD"), a private company based on Saskatoon, holding a cannabis wholesale license in the province of Saskatchewan. At acquisition the purchase price of $1.1 million, was to be paid by the Company as follows:

- $250,000 paid by cash at closing (paid); and
- $850,000 to be paid in 24 equal monthly payments of $35,417 commencing April 1, 2019

The acquisition was accounted for in accordance with IFRS 3 Business Combinations as a business combination, with the assets and liabilities acquired valued at fair value at the acquisition date. The excess of consideration over the fair value of the net assets acquired has been recorded as goodwill. Purchase consideration was discounted to present value at discount rate of 17.71%.

Fair value of consideration	$ 950,518
Assets acquired and liabilities assumed:	$
Cash	75
Other receivables and prepaid expenses	17,214
Inventory	-
Right-of-use assets	149,098
Property and equipment	80,943
Intangible assets – cannabis wholesale license	150,000
Accounts payable and other payables	(89,587)
Customer Deposits	(75,000)
Due to related parties	(28,163)
Lease liabilities	(147,650)
Loan payable	(10,000)
Deferred tax liability	-
Total identifiable net assets at fair value	(46,930)
Goodwill arising on acquisition	903,588

(Expressed in Canadian Dollars)

5) ACQUISITION OF NCD (continued)

The Company measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use assets were measured at an amount equal to the lease liabilities and subsequently amortize right-of use assets over its remaining lease period.

The goodwill of $903,588 comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the wholesale segment. None of the goodwill recognized is expected to be deductible for income tax purpose.

During the period ended January 31, 2020, $568,750 of the consideration had been paid. As of January 31, 2020, the remaining balance of the consideration payable to the selling shareholder is $473,410. There were no transaction costs relating to this acquisition.

	Purchase liability
	$
Balance, March 18, 2019	700,518
Monthly payments made	(318,750)
Accretion	91,642
Balance, January 31, 2020	473,410

	Purchase liability
	$
Current portion	370,180
Long-term liabilities	103,230
Balance, January 31, 2020	473,410

From the date of acquisition, NCD contributed $1,745,223 of revenue and $1,223,021 to net loss before tax from continuing operations of the Company. If the acquisition had taken place at the beginning of the year, NCD's contribution to revenue would have been $1,745,223 and contribution to net loss before tax from continuing operations for the Company would have been $1,270,504.

6) AMALGAMATION

Effective September 9, 2019, Elora amalgamated with Aura pursuant to the terms and conditions of the Amalgamation Agreement dated July 24, 2019, to which:

- Each issued and outstanding Elora share was cancelled and the holder of each Elora share received one common share of the Company.

- Each issued and outstanding Aura share was also cancelled and the holder of each Aura share received five common shares of the Company.

- Each warrants and options of Elora were cancelled and replaced with one warrant or option of the Company with terms remaining the same as the original Elora warrant.

- Each warrants and options of Aura were cancelled and replaced with five warrants or options of the Company with terms remaining the same as the original Aura options, except the exercise price was amended to the original exercise price divided by five.

- Each debenture of Aura became a debenture of the Company with terms remaining the same as the original Aura debenture

(Expressed in Canadian Dollars)

6) AMALGAMATION *(continued)*

The amalgamation was treated as two transactions: a reverse takeover between Aura and the Company and an asset acquisition of Elora by the Company.

The shareholders of Aura as a group acquired control over the combined entity. Because Elora was an inactive shell company, it did not meet the definition of a business. Therefore, the transaction was outside of the scope of IFRS 3 "Business Combinations" and was accounted for as a share-based payment transaction under IFRS 2 "Share-based payments". Under this basis of accounting, the consolidated financial statements are presented as a continuation of Aura, except for the capital structure which is that of Kiaro. In addition, the net identifiable assets of Elora are deemed to have been acquired by Kiaro. Aura is deemed to be the acquiring company and its assets, liabilities, equity and historical operating results are included at their historical carrying values. The net assets of Elora will be recorded at fair value as at the amalgamation date, which also represent the value of the shares issued by Kiaro to replacing the issued and outstanding Elora shares.

Under the terms of the arrangements, Kiaro issued 88,490,110 shares to replace Aura and Elora's issued and outstanding shares, and Kiaro issued 6,449,518 options and warrants to replace Aura and Elora's options and warrants. The replacement options and warrants issued are accounted for as modification of share-based payments in accordance with IFRS 2. For the replacement options and warrants issued for Aura's options and warrants, as there is no change to the options and warrants terms, the replacement options and warrants have no impact on the consolidated financial statements. For the replacement warrants issued for Elora's options, the fair value of the warrants as of the amalgamation date of $264,053, calculated using Black-Sholes model was recorded as share-based compensation in the consolidated financial statements, since the original warrants were recorded at amount of $nil. The assumptions used are 100% volatility, 1.32 years and 1.44% risk-free rate.

The consideration paid by Aura to acquire Kiaro was measured on the basis of the fair value of the notional equity instruments deemed to have been issued considering the price per share of the share exchange occurred near the amalgamation.

In accordance with IFRS 2, the fair value of the shares issued to acquiring Elora was determined based on the fair value of the net identifiable assets acquired.

Net identifiable assets of Elora		
Cash	$	28,889
Other net assets and liabilities		-
Fair value of the shares issued to acquiring Elora		28,889

7) TRADE AND OTHER RECEIVABLES

	January 31, 2020	**December 31, 2018**
	$	$
Trade receivables	29,992	-
GST receivable	54,610	-
Other receivables	77,858	8,611
	162,460	8,611

(Expressed in Canadian Dollars)

8) PREPAIDS AND DEPOSITS

	January 31, 2020	December 31, 2018
	$	$
Prepaid	195,350	90,061
Lease deposits	183,742	117,504
Other deposits	12,562	16,428
	391,654	223,993
Current prepaid expenses	207,912	106,489
Long-term lease deposits	183,742	117,504
	391,654	223,993

9) INVENTORY

As at January 31, 2020, the Company had inventory totaling $841,829 (December 31, 2018 – nil), which consists of finished products such as recreational cannabis and accessories purchased from third parties for resale. During the period ended January 31, 2020, $4,421,489 of inventory was recognized as cost of sales ($nil for the year ended December 31, 2018), and $52,940 was recognized as an impairment of inventory ($nil for the year ended December 31, 2018).

10) INVESTMENTS IN MARKETABLE SECURITIES

	Investment in marketable securities
	$
Balance, December 31, 2017 and 2018	-
Cost of shares/warrants acquired	5,398,788
Fair value change	(2,393,055)
Unrealized foreign exchange loss	(19,215)
Balance, January 31, 2020	2,986,518

On September 13, 2019, the Company and High Park Holdings Ltd. entered into a Subscription Agreement, pursuant to which, High Park Holdings Ltd., a wholly owned subsidiary of Tilray Inc. (“Tilray”), purchased from the Company an aggregate of 8,532,243 units of the Company by issuance of 128,670 class 2 common shares of Tilray. As part of the transaction, the Company granted 1,706,484 warrants to High Park (note 17). As at January 31, 2020 the Company recognized an unrealized loss on the fair value of the shares of $2,412,270 and marketable securities of $2,986,518, measured at fair value using level 1 input.

11) LOAN RECEIVABLE

On June 19, 2019, the Company entered a secured convertible debenture agreement with Randall Rolph, pursuant to which the Company lent $300,000 to Randall Rolph. The convertible debenture is with maturity date on December 31, 2019, bearing interest of 10% per annum, and secured with 10,539,328 common shares in the capital of Pineapple Express Delivery Inc. ("Pineapple Express"), registered in the name of Mount Royal Investment Inc. ("MRI"), and 256,098 common shares in the capital of Namaste Technologies Inc. registered in the name of MRI. The loan is convertible at the option of the Company at a price equal to the greater of: (i) $0.50 and (ii) 70% of the offering price paid per share of the most recently completed bona fide arms-length convertible debt or equity financing of Pineapple Express. The Company has declined to convert the loan and is in the process of negotiating the loan settlement. Credit-impaired approach was used to assess the impairment of the loan receivable balance. Under this approach, the future cash flow that can be received, including proceeds from the collateral, was assessed and no impairment loss was recorded.

(Expressed in Canadian Dollars)

12) PROPERTY AND EQUIPMENT

	Furniture and fixture	Computer equipment	Leasehold improvement	Software	Website	Total
Cost	$	$	$	$	$	$
January 1, 2018	-	-	-	-	-	-
Additions	48,212	96,450	787,035	40,590	-	972,287
December 31, 2018	48,212	96,450	787,035	40,590	-	972,287
Additions	49,629	93,936	1,048,578	61,415	52,763	1,306,321
Additions from business combination (Note 5)	5,840	1,431	72,592	1,080	-	80,943
Disposals	-	-	(36,853)	-	-	(36,853)
January 31, 2020	103,681	191,817	1,871,352	103,085	52,763	2,322,698

	Furniture and fixture	Computer equipment	Leasehold improvement	Software	Website	Total
Accumulated depreciation	$	$	$	$	$	$
January 1, 2018	-	-	-	-	-	-
Depreciation	7,419	19,572	8,004	8,935	-	43,930
December 31, 2018	7,419	19,572	8,004	8,935	-	43,930
Depreciation	19,021	65,809	366,842	41,281	28,656	521,609
Disposals	-	-	(8,087)	-	-	(8,087)
January 31, 2020	26,440	85,381	382,933	50,216	28,656	573,626

	Furniture and fixture	Computer equipment	Leasehold improvement	Software	Website	Total
Net book value	$	$	$	$	$	$
December 31, 2018	40,793	76,878	779,031	31,655	-	928,357
January 31, 2020	77,241	106,436	1,488,419	52,869	24,107	1,749,072

13) RIGHT-OF-USE ASSETS

The Company leases retail spaces, office spaces and a wholesale warehouse.

On July 4, 2019, the Company entered into a purchase and sales agreement with Green Hart, pursuant to which the Company acquired: (1) the lease agreement for the property located in Vancouver, BC; (2) the development permit; (3) the retail assets and retail location, including all the fixtures and other leasehold improvements existing in the retail location. Total purchase consideration amounted to $900,000, including $500,000 paid in cash and $400,000 of shares issued (Note 17). As the acquisition cost is a direct cost for acquiring the lease, the purchase consideration for this acquisition was included in the right-of-use asset account and amortize over the lease term using straight-line method.

On October 18, 2019, the Company entered into a purchase and sales agreement with Evo Medi-Society, pursuant to which the Company acquired: (1) the lease agreement for the property located in Vancouver, BC; (2) the development permit; (3) the retail assets and retail location, including all the fixtures and other leasehold improvements existing in the retail location. Total purchase consideration amounted to $2,300,000, including $700,000 paid in cash, $600,000 promissory notes (Note 16), and $1,000,000 debentures (Note 16). As the acquisition cost is a direct cost for acquiring the lease, the purchase consideration for this acquisition was included in the right-of-use asset account and amortize over the lease term using straight-line method.

(Expressed in Canadian Dollars)

13) RIGHT-OF-USE *(continued)*

Right-of-use assets

The following table illustrates the right-of-use asset balances during the period.

	Retail space, Offices and Warehouse
	$
Cost	
Balance at January 1, 2019 (Note 4)	2,137,489
Direct acquisition costs	3,335,280
Additions from leases	2,141,661
Depreciation	(1,458,640)
Termination	(1,370,241)
Amendment	420,122
Impairment	(261,025)
Balance at January 31, 2020	**4,944,646**

Lease liabilities

The following table sets out a maturity analysis of lease liabilities:

	Retail space, Offices and Warehouse
	$
Cost	
Balance at January 1, 2019 (Note 4)	1,821,235
Direct acquisition costs	147,650
Additions from leases	2,558,037
Payments net of interest	(450,090)
Termination	(1,305,854)
Amendment	400,122
Balance at January 31, 2020	**3,171,100**
Current portion	683,979
Long-term portion	2,487,121

The Company has recognized the interest expense on lease liabilities in the amount of $666,038 in the consolidated statements of loss and comprehensive loss.

The Company has recognized cash outflow for leases of $2,676,471 (2018 - $nil) in the consolidated statement of cash flows.

During the period ended January 31, 2020, amount of $135,282 termination loss was recognized for termination of various lease agreements.

(Expressed in Canadian Dollars)

13) RIGHT-OF-USE *(continued)*

Net investment in finance lease

During the fiscal period, the company entered into a sublease agreement with a third party. The Company's net investment in finance lease is presented in the consolidated statements of financial position as follows:

Cost	$
Balance at January 1, 2019	-
Additions	636,683
Interest accretion	63,873
Lease receipts	(109,165)
Balance at January 31, 2020	**591,391**
Current	130,483
Non-Current	460,908

The following table sets out a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis, reconciliation to the net investment in lease. The lease liability is disclosed in Note 23, see Note 23 table for financial liabilities with contractual maturities information.

	$
Less than one year	223,091
One to two years	231,253
Two to three years	234,653
Three to four years	97,772
Total undiscounted lease payments receivable	786,769
Less: interest accretion	(195,378)
Net investment in lease at January 31, 2020	591,391

14) INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Intangible assets - license	Total intangible assets and goodwill
At December 31, 2017 and 2018	-	-	-
Additions (Note 5)	903,588	150,000	1,053,588
Impairment	(445,000)	-	(445,000)
At January 31, 2020	458,588	150,000	608,588

During the period ended January 31, 2020, the Company acquired a wholesale cannabis license in the province of Saskatchewan through the acquisition of NCD. As a result of the acquisition, goodwill in the amount of $903,588 was recognized. See Note 5. NCD was identified as a CGU for impairment purpose. An impairment test was performed on the NCD CGU. In assessing if an impairment loss was required, the recoverable amount of the CGU was determined to be equal to its value in use. In estimating the value in use, cash flow projections were prepared for a period of five years and discounted using a rate of 15%. Key assumptions that were used in the cash flow projections include using a growth rate of 5%, terminal value of 2% and gross margin of 9%-10%. The results of the cash flow projection indicated that the NCD CGU was impaired as their carrying value exceeded the recoverable amount of the CGU. An impairment loss of $445,000 was applied to the carrying value of goodwill and has been recorded under impairment loss on the consolidated statements of net loss for the period ended January 31, 2020. No impairment loss was recognized for the year ended December 31, 2018.

Increase/decrease in gross margin rate by 1% would have decreased/increased impairment loss by $374,000 and $367,000. Increase/decrease in growth rate by 1% would have decreased/increased impairment loss by $66,000 and $56,000. Increase/decrease in discount rate by 1% would have increased/decreased impairment loss by $95,000.

(Expressed in Canadian Dollars)

15) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	January 31, 2020	December 31, 2018
	$	$
Accounts payable	1,316,024	407,547
Accrued liabilities	122,841	114,292
GST Payable	-	36,925
PST Payable	23,561	-
	1,462,426	558,764

16) LONG-TERM LIABILITIES

	January 31, 2020	December 31, 2018
	$	$
Promissory notes (i-ii)	2,322,660	-
Convertible debenture (iii-iv)	4,208,107	243,967
	6,530,767	-
Current portion	694,055	-
Long-term portion	5,836,712	-

(i) During the period between October 17, 2019 and December 20, 2019, the Company entered into promissory note units ("Note Units") agreements with three companies related to directors of the Company totaling of $1,850,000. Each Note Unit consist of (i) one secured non-convertible note ("Notes") bear simple non-compounding interest at a rate of 14%, accrued and payable on the maturity date, and (ii) one share purchase warrant of the Company, exercisable at any time for a period of 2 years from the date of issuance and gives the holder the right to acquire one common share of the company at an exercise price of $0.60 each (note 17). The Notes mature on the earlier of (i) 18 months following the date of issuance, and (ii) 5 days following the date on which the company sells or transfers the investment in Tilray shares ("Security") to an arms-length third party, or otherwise disposes of the Security. The Note is secured against the securities the Company holds in Tilray (note 10) or the proceeds derived from the Company upon the sale of the Tilray shares. 3,052,500 warrants were issued in the Note Units. (Note 25)

On inception of the Note Units, the fair value of the debt component of $1,707,094 was measured at the net present value of future cash flow using a discount rate of similar debt with no warrant attached. The residual value of $142,907 was recorded in reserve as an equity component. The debt component was subsequently measured at amortized cost using an effective interest rate of 20%.

(ii) On October 18, 2019, pursuant to a purchase and sale agreement to acquire the right to lease from a third party (note 13), the Company issued an unsecured promissory note in the amount of $600,000. The note bears an interest rate of 10% per annum calculated from January 1, 2020 until April 1, 2020, at which time the note shall mature. The interest will be accrued and paid on maturity.

Details of movements in the promissory note balance are as follows:

	Promissory Note Units	Promissory Note	Total
	$	$	$
At inception	1,707,094	600,000	2,307,094
Accretion of promissory notes	15,566	-	15,566
Balance, January 31, 2020	1,722,660	600,000	2,322,660

No interest was paid during the year and $48,348 of interest was accrued and recorded in accounts payable and accrued liabilities as at January 31, 2020.

(Expressed in Canadian Dollars)

16) LONG-TERM LIABILITIES *(continued)*

During the period ended January 31, 2020, no interest payment was made, and $68,128 of interest payable is recorded in accounts payable and accrued liabilities (Note 15).

(iii) On January 1, 2018, the Company entered into an agreement with a director of the Company for a convertible debenture in the amount of $300,000. The convertible debenture bears interest at 4% and is to mature on January 1, 2021. The lender may, at any time, convert all or portion of the principal into common shares of the Company at a value of $0.50 per common share. The Company recognized an equity component of $92,379 on inception of the convertible debentures. During the period ended June 30, 2019, contractual interest payable of $17,002 was accrued and included in interest and accretion expense. On June 17, 2019, the convertible debentures were converted to 600,000 common shares with a fair value of $353,348 (Note 17).

Details of movements in this convertible loan balance are as follows:

	January 31, 2020	December 31, 2018
	$	$
Balance, beginning of period	243,967	-
Amount advanced	-	300,000
Equity component of convertible debenture	92,379	(92,379)
Accretion of convertible debentures	17,002	36,346
Conversion to common shares	(353,348)	-
	-	243,967

(iv) During the period between May 19, 2019 and July 29, 2019, the Company closed three tranches of a non-brokered private placement of convertible debt for gross proceeds of $4,250,000. In addition, on October 18, 2019, pursuant to a purchase and sale agreement to acquire the right to lease from a third party (Note 13), the Company issued convertible debt in the amount of $1,000,000. Each convertible debenture is to mature two years from the closing date and bears interest at the rate of 8% per annum. The lenders may, at any time, convert all or portion of the principal into common shares of the Company at a value being the lesser of $0.432 per common share or the issue price of the Company's initial public offering, less a 20% discount. As the conversion price is variable, the conversion feature meets the definition of embedded derivative liability and was measured at fair value using level 3 inputs. Estimated probability and timing of conversion, and estimated benefit the holder will get from conversion were considered in determining the fair value of the conversion feature. The remaining portion, net of transaction costs of $48,500, was allocated to the debt component.

At year end, the conversion feature was remeasured at fair value, and the debt component was measured at amortized cost using effective interest rate of 22% - 24%.

Details of movements in the convertible loan balance are as follows:

	Convertible debenture	Derivative liability
	$	$
At inception	3,931,543	1,269,857
Accretion of convertible debentures	276,564	-
Change in fair value of derivative liability	-	15,143
	4,208,107	1,285,000

Key assumptions that were used in the fair value of embedded derivative include the risk free discount rates (1.47%). The change in fair value of embedded derivative liability of $15,143 was recognized in the consolidated statements of loss.

16) LONG-TERM LIABILITIES *(continued)*

As at January 31, 2020, interest payable related to the convertible debentures of $227,708 was accrued and included in the accounts payable and accrued liabilities.

17) SHARE CAPITAL

Authorized

Unlimited number of common shares, without par value.

Issued

During the period ended January 31, 2020:

On June 17, 2019, Aura, the predecessor of Kiaro, issued 600,000 common shares (or 3,000,000 Kiaro common shares) for the conversion of convertible debt held by a director of the Company for the amount of $353,348 (Note 16).

On June 17, 2019, Aura issued 5,000 bonus common shares to an employee of the company at a price of $1 per common share (or 25,000 Kiaro common shares at $0.20 per common share).

On June 21, 2019, Aura issued 68,000 common shares at a price of $1 per common share (note 18) that was previously recorded as share-based payment reserved (or 340,000 Kiaro common shares at $0.20 per common share).

On July 4, 2019, Aura issued 185,185 common shares at a price of $2.16 per common share (or 925,925 Kiaro common shares at $0.432 per common share), pursuant to a purchase and sale agreement related to a retail location in Victoria, British Columbia (note 13).

On August 28, 2019, Aura issued 20,000 common shares at a price of $0.63 per common share or (100,000 Kiaro common share at $0.13 per share) for services rendered.

On September 9, 2019, to effect the amalgamation agreement between Elora Capital Ltd. and Aura Cannabis Inc. to form Kiaro Brands Inc., each issued and outstanding Aura share was cancelled and the holder of each Aura share received five common shares of Kiaro; and each issued and outstanding Elora share was cancelled, and the holder of each Elora share received one common share of Kiaro. To that end, 3,402,110 common shares of Elora were cancelled and 3,402,110 shares of Kiaro were issued; and 17,017,600 common shares of Aura were cancelled and 85,088,000 shares of Kiaro were issued.

On September 13, 2019, Kiaro issued 8,532,423 common shares at a deemed price of $0.633 per common share to High Park, a wholly owned subsidiary of Tilray Inc. In return, High Park issued 128,670 common shares of Tilray (note 10).

During the year ended December 31, 2018:

On January 8, 2018, the Company issued 150,000 common shares at a price of $1 per common share through a conversion of an amount due to a director for proceed of $150,000 (Note 11).

On January 8, 2018, the Company issued 25,000 common shares at a price of $1 per common share for gross proceeds of $25,000.

On January 8, 2018, the Company issued 200,000 common shares at a price of $1 per common share through a conversion of loan from individuals for proceeds of $200,000.

On January 8, 2018, the Company issued 8,194,600 common shares at a price of $1 per common share for gross proceeds of $8,194,600.

17) SHARE CAPITAL *(continued)*

Issued *(continued)*

On January 17, 2018, the Company issued 100,000 common shares at a price of $1 per common share for gross proceeds of $100,000.

On January 23, 2018, the Company issued 50,000 common shares at a price of $1 per common share for gross proceeds of $50,000.

Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time grant to directors, officers, employees and technical consultants to the Company options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of outstanding common shares.

On September 9, 2019, the effective date of the amalgamation between Aura and Elora, each outstanding stock option held by directors, officers and employees of Aura which had not been exercised prior to the amalgamation was converted into five Kiaro replacement warrants (rounded down to the nearest whole share) at an exercise price of the Aura option divided by five (rounded to the nearest whole cent). The terms and conditions of a replacement warrant including the term to expiry, vesting, conditions to and manner of exercising, was the same as the Aura Directors and Officers Option for which it was exchanged.

During the period ended January 31, 2020, the following options were issued. The options issued are presented on the basis of issuance by Kiaro, and after the option expiration extension from three to ten years. All options listed below issued to employees, not executives and consultants, have an expected forfeiture rate of 36.10%:

On January 7, 2019, the Company granted 75,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on January 7, 2029. The options vest over ten years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.87%.

On January 23, 2019, the Company granted 75,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on January 23, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.88%.

On February 4, 2019, the Company granted 250,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on February 4, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.83%.

On February 20, 2019, the Company granted 375,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on February 20, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.77%.

On February 25, 2019, the Company granted 375,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on February 25, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.78%.

17) SHARE CAPITAL *(continued)*

Options *(continued)*

On March 4, 2019, the Company granted 250,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on March 4, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.75%.

On April 1, 2019, the Company granted 450,000 options to two employees of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on April 1, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.61%.

On May 2, 2019, the Company granted 375,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on May 2, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.65%.

On May 17, 2019, the Company granted 75,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on May 17, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.64%.

On June 3, 2019, the Company granted 75,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on June 3, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.40%.

On July 15, 2019, the Company granted 250,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on July 15, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.59%.

On July 22, 2019, the Company granted 75,000 options to an employee of the Company at an exercise price of $0.20 per common share for a period of ten years, expiring on July 22, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.51%.

On August 13, 2019, the date on which the option expiration term was extended from three years to ten years, the revised fair value of the options issued up to this date, was estimated with the Black-Sholes option pricing model using current market assumptions, whereby the difference in option value between the remaining term of the options assuming an expiration of ten years and an expiration three years was used to calculate the revised value. Amount of $50,202 incremental share-based compensations was recorded in the consolidated financial statements as a result of the options modification The assumptions are as follows: Remaining expected life between 7.6 to 9.9 years, expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate between 1.23% and 1.24%; and Remaining expected life between 0.6 and 2.9 years, expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.44%.

17) SHARE CAPITAL *(continued)*

Options *(continued)*

On September 8, 2019, the date of the amalgamation, 5,587,500 options held by directors, officers and employees of Aura which has not been exercised prior to the amalgamation were converted into five Kiaro replacement warrants.

On September 25, 2019, the Company granted 2,462,500 options to sixteen employees of the Company at an exercise price of $0.586 per common share for a period of ten years, expiring on September 25, 2029. The options vest over ten years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 10 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.39%.

On October 21, 2019, the Company granted 625,000 options to an employee of the Company at an exercise price of $0.630 per common share for a period of ten years, expiring on October 21, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 10 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.56%.

On December 17, 2019, the Company granted 250,000 options to an employee of the Company at an exercise price of $0.630 per common share for a period of ten years, expiring on December 17, 2029. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 10 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.63%.

On January 20, 2020, the Company granted 250,000 options to an employee of the Company at an exercise price of $0.630 per common share for a period of ten years, expiring on January 20, 2030. The options vest over three years. The fair value of the options at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 10 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.56%.

The Company recorded stock-based compensation of $174,265 for options vested during the period ended January 31, 2020.

During the year ended December 31, 2018, the Company committed to issue 375,000 stock options under various employment contracts. These options are exercisable at a price of $1 and vest over 3 years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.98% - 2.26%.

During the year ended December 31, 2018, the Company committed to issue 68,000 common shares and 34,000 stock options to a company controlled by interim COO through the execution of consulting contracts. The options are exercisable at a price of $1 per share and expire 10 years from the date of grant. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.18%

During the year ended December 31, 2018, the Company granted 17,500 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on March 6, 2027. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 0.76%.

During the year ended December 31, 2018, the Company granted 55,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on July 31, 2027. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.30%.

17) SHARE CAPITAL *(continued)*

Options *(continued)*

During the year ended December 31, 2018, the Company granted 25,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on August 11, 2027. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.20%.

During the year ended December 31, 2018, the Company granted 55,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on November 14, 2027. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.44%.

During the year ended December 31, 2018, the Company granted 75,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on March 7, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.75%.

During the year ended December 31, 2018, the Company granted 75,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on March 26, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.87%.

During the year ended December 31, 2018, the Company granted 75,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on March 27, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.87%.

During the year ended December 31, 2018, the Company granted 75,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on May 11, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.93%.

During the year ended December 31, 2018, the Company granted 75,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on May 30, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.88%.

During the year ended December 31, 2018, the Company granted 15,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on May 30, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.08%.

During the year ended December 31, 2018, the Company granted 17,500 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on September 1, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.07%.

(Expressed in Canadian Dollars)

17) SHARE CAPITAL *(continued)*

Options *(continued)*

During the year ended December 31, 2018 the Company granted 50,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on September 17, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.12%.

During the year ended December 31, 2018 the Company granted 15,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on October 15, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.27%.

During the year ended December 31, 2018 the Company granted 15,000 options to an employee of the Company at an exercise price of $1.00 per common share for a period of ten years, expiring on November 7, 2028. The options vest over three years. The fair value of the options was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 3 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 2.32%.

The Company recorded share based compensation of $318,000 for options vested during the year ended December 31, 2018.

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Aura options outstanding, December 31, 2017	-	-
Aura options granted	1,049,000	1.00
Aura options outstanding, December 31, 2018	1,049,000	1.00
Aura options granted	540,000	1.000
Aura options cancelled or forfeited	(412,500)	1.000
Aura options outstanding, pre-amalgamation	1,176,500	1.000
Aura options exchanged for Kiaro options	(1,176,500)	1.000
Kiaro options exchanged for Aura options	5,882,500	0.200
Kiaro options converted to warrants at amalgamation	(5,587,500)	0.200
Kiaro options remaining immediately after amalgamation	295,000	0.200
Kiaro options granted subsequent to amalgamation	3,587,500	0.586
Kiaro options cancelled or forfeited subsequent to amalgamation	(450,000)	0.586
Options outstanding, January 31, 2020	3,432,500	$ 0.553
Options exercisable, January 31, 2020	181,455	$ 0.200
Options exercisable, December 31, 2018	409,000	$ 1.00

(Expressed in Canadian Dollars)

17) SHARE CAPITAL *(continued)*

Options *(continued)*

Details of options outstanding as at January 31, 2020 are as follows:

Exercise Price	Expiry Date	Balance, end of period
$0.200	August 11, 2027	125,000
$0.200	June 1, 2028	62,500
$0.200	September 1, 2028	107,500
$0.586	September 25, 2029	2,012,500
$0.586	October 21, 2029	625,000
$0.586	December 17, 2019	250,000
$0.586	January 1, 2030	250,000
		3,432,500

Details of options outstanding as at December 31, 2018 are as follows:

Exercise Price	Expiry Date	Balance, end of period
$1.00	March 6, 2027	17,500
$1.00	July 31, 2027	55,000
$1.00	August 11, 2027	150,000
$1.00	November 14, 2027	55,000
$1.00	March 7, 2028	75,000
$1.00	March 26, 2028	75,000
$1.00	March 27, 2028	75,000
$1.00	May 11, 2028	75,000
$1.00	May 30, 2028	75,000
$1.00	June 1, 2028	12,500
$1.00	July 9, 2028	125,000
$1.00	August 13, 2028	15,000
$1.00	September 1, 2028	39,000
$1.00	September 17, 2028	50,000
$1.00	October 15, 2028	15,000
$1.00	November 7, 2028	15,000
$1.00	November 26, 2028	125,000
		1,049,000

The weighted average life for the options outstanding was 9.6 years (2018 – 9.27). The weighted average fair value of options granted during the year was $0.553 (2018 - $1.00).

17) SHARE CAPITAL *(continued)*

Warrants

As previously noted, on September 8, 2019, the date of the amalgamation, 5,587,500 options held by directors, officers and employees of Aura which has not been exercised prior to the amalgamation was converted into five Kiaro replacement warrants.

Warrant transactions are summarized as follows:

At the date of amalgamation, each outstanding Elora warrant which had not been exercised prior to the amalgamation was converted into a replacement warrant to purchase from Kiaro one Kiaro share. Each replacement warrant provided an exercise price per Kiaro share equal to the original exercise price per Elora warrant.

On September 13, 2019, the Company granted 1,706,484 warrants to High Park Holdings as part of the share issuance to High Park Holdings (note 10). Each warrant has an exercise price of $0.586 per common share for a period of 2 years, expiring on September 13, 2021. The warrants vest immediately. The fair value of the warrants at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 2 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.64%.

On November 1, 2019, the Company granted 825,500 warrants to an employee of the Company at an exercise price of $0.42 per common share for a period of ten years, expiring on November 1, 2029. The warrants vest over three years. The fair value of the warrants at the time of issuance was estimated with the Black-Scholes option pricing model using current market assumptions: Expected life of 10 years; expected volatility of 100%, dividend yield 0.0% and a risk-free interest rate of 1.44%.

On October 17, 2019, the Company granted 1,237,500 warrants to company belonging to an officer of the Company at an exercise price of $0.60 per common share for a period of two years, expiring on October 17, 2021. The warrants were issued as part of the promissory notes agreement (note 16) and vest immediately. The fair value of the warrants were measured at the net present value of future cash flow using a discount rate of similar debt with no warrant attached. The residual value was recorded as an equity component.

On December 20, 2019, the Company granted 165,000 warrants to company affiliated to an officer of the Company at an exercise price of $0.60 per common share for a period of two years, expiring on December 20, 2021. The warrants were issued as part of the promissory notes agreement (note 16) and vest immediately. The fair value of the warrants were measured at the net present value of future cash flow using a discount rate of similar debt with no warrant attached. The residual value was recorded as an equity component.

On December 24, 2019, the Company granted 1,650,000 warrants to company belonging to an officer of the Company at an exercise price of $0.60 per common share for a period of two years, expiring on December 24, 2021. The warrants were issued as part of the promissory notes agreement (note 16) and vest immediately. The fair value of the warrants were measured at the net present value of future cash flow using a discount rate of similar debt with no warrant attached. The residual value was recorded as an equity component.

The Company recorded stock-based compensation of $618,910 for warrants vested during the period ended January 31, 2019.

(Expressed in Canadian Dollars)

17) SHARE CAPITAL *(continued)*

Warrants *(continued)*

During the period ended January 31, 2020, the following warrants were issued:

	Number of options	Weighted average exercise price
Warrants outstanding, December 31, 2018	-	-
Options converted to warrants	5,587,500	0.200
Elora warrants converted to Kiaro warrants	567,018	0.200
Warrants granted	5,583,984	0.569
Warrants cancelled or forfeited	(2,524,304)	0.200
Warrants outstanding, January 31, 2020	9,214,198	$ 0.424
Warrants exercisable, January 31, 2020	5,150,778	$ 0.437

Details of warrants outstanding as at January 31, 2020 are as follows:

Exercise Price	Expiry Date	Balance, end of period
$0.200	January 2, 2021	567,018
$0.586	September 13, 2021	1,706,484
$0.600	October 17, 2021	1,237,500
$0.600	December 20, 2021	165,000
$0.600	December 24, 2021	1,650,000
$0.200	March 6, 2027	87,500
$0.200	July 31, 2027	114,584
$0.200	August 11, 2027	625,000
$0.200	November 14, 2027	275,000
$0.200	May 30, 2028	375,000
$0.200	July 9, 2028	625,000
$0.200	September 17, 2028	111,112
$0.200	February 20, 2029	375,000
$0.200	April 1, 2029	75,000
$0.200	June 3, 2029	75,000
$0.200	July 15, 2029	250,000
$0.200	July 22, 2029	75,000
$0.420	November 1, 2029	825,000
		9,214,198

There were no warrants in the prior fiscal year. The weighted average life for the warrants outstanding is 4.6 years.

(Expressed in Canadian Dollars)

18) RELATED PARTY TRANSACTIONS

Related parties include the Company's key management personnel, independent directors and shareholders. Transactions with related parties were conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and approved by the related parties.

Compensation for key management personnel, including the Company's Officers and Board of Directors, was as follows for the periods:

	January 31, 2020	**December 31, 2018**
	$	$
Salaries and benefits	570,769	378,760
Consulting fee	50,854	172,264
Share-based compensation	174,929	89,000
Total key management compensation	796,552	640,024

During the period ended January 31, 2020, the Company incurred $9,534 (2018 - $172,264) in consulting fees to a company controlled by the interim COO, $43,863 (2018 - $nil) in consulting fees to a company controlled by the interim CFO, and $570,769 (2018 - $378,760) in salaries paid to the CEO, former CFO and President of Operations of the Company.

During the period ended January 31, 2020, the Company issued 600,000 common shares at a value of $353,348 through a conversion of loan owing at December 31, 2018 (Note 17).

During the period ended January 31, 2020, the Company issued 68,000 common stock at a value of $68,000 to a company controlled by the interim COO (note 17). During the year ended December 31, 2018, the $68,000 was recorded as reserve.

At January 31, 2020, the Company owed $8,255 to a company controlled by the CEO, $2,731 to a director, and $7,875 to the interim CFO (Note 15). At December 31, 2018, the Company owed to the CEO, former CFO and a company controlled by interim COO $199,974 in respect of fees (Note 15). All balances are unsecured, non-interest bearing and are due on demand.

The company has promissory notes with a balance of $1,850,000 owing to companies controlled by the CEO and interim CFO of the company (note 16), with interest owing on the promissory notes of $63,914 (note 15). Further, the promissory notes had warrants attached that were exercisable immediately (note 17) with a fair value of $142,907. The balances are secured against the investment in marketable securities (note 10). In conjunction with the promissory notes, the Company issued 3,052,500 warrants (note 17), and amount of $142,907 (note 16) recorded as equity component of the promissory note.

The company has a convertible debenture with a balance of $1,255,000 maturing July 29, 2021 owing to a company controlled by the CEO (note 16), with interest owing on the convertible debenture of $51,163 (note 15).

(Expressed in Canadian Dollars)

19) REVENUE

Major components of revenues are as follows:

	January 31, 2019	**December 31, 2018**
	$	$
Recreational cannabis	5,181,467	-
Accessories and other	581,987	-
	5,763,454	-

The Company does not have significant exposure to any individual customers as at January 31, 2020 and December 31, 2018.

20) INCOME TAXES

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended January 31, 2020 and 2019:

		From January 1, 2019 to January 31, 2020		2018
Loss before income taxes	$	(12,503,250)	$	(2,522,013)
Statutory tax rate		27.00%		27.00%
Expected income tax (recovery)		(3,375,878)		(681,000)
Non-deductible expense		824,656		95,000
Deferred lease acquisition		-		(14,000)
Effect of change in tax rate		-		(1,000)
Change in estimates		(878,009)		-
Change in deferred tax asset not recognized		3,429,231		601,000
Total income tax expense (recovery)	$	-	$	-

(Expressed in Canadian Dollars)

20) INCOME TAXES *(continued)*

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

Deferred tax asset (liabilities) at January 31, 2020 and December 31, 2018 are comprised of the following:

	2019	2018
Non capital loss carryforwards	$ 598,249	$ -
PPE including ROU asset	(348,075)	-
Intangible asset	(40,500)	-
Promissory note	(34,382)	-
Net investment in lease	(159,675)	-
Purchase liability	(15,617)	-
Deferred tax asset (liabilities)	$ -	$ -

The unrecognized deductible temporary differences are as follows:

	2019	**2018**
Non capital loss carryforwards	$ 7,896,123	$ 600,000
PPE including ROU asset	-	14,000
Lease liability	3,171,100	-
Convertible loan	215,879	-
Deposit on ROU Asset	5,000	-
Marketable security	2,412,270	-
Financing Costs	38,800	-
Capital Losses	35,638	-
Lease acquisition	-	12,000
Unrecognized deductible temporary differences	$ 13,774,810	$ 626,000

As at January 31, 2020, the Company has not recognized a deferred tax asset in respect of non-capital loss carryforwards of approximately $7,896,123, which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	Canada
2040	$ 6,675,950
2039	55,856
2038	1,164,317
TOTAL	$ 7,896,123

(Expressed in Canadian Dollars)

21) SEGMENTED INFORMATION

Throughout the period ended January 31, 2020, the Company operated in two segments;

(i) Wholesale Cannabis Business - the Company owns and operates wholesale cannabis business through its wholly owned subsidiary National Cannabis Distribution Inc in the Province of Saskatchewan.

(ii) Retail Cannabis Stores – The Company operates retail locations to sell and distribute cannabis and cannabis related products.

Corporate is not an operating segment and contains the Company's corporate, strategic, and administrative activities. All the Company's revenue earned and assets are located in Canada. The Company only operated under the corporate segment for the year ended December 31, 2018, thus no comparatives are presented below.

Period ended January 31, 2020	**Wholesale cannabis business**	**Retail cannabis stores**	**Corporate**	**Total**
Revenue	1,745,223	3,426,613	-	5,171,836
Cost of sales	2,192,014	1,637,857	-	3,829,871
Gross profit	(446,791)	1,788,756	-	1,341,965
Operating expenses	747,201	2,945,932	6,034,114	9,727,247
Loss from operations	1,193,992	1,157,176	6,034,114	8,385,282
Other income/(expenses)				
Change in fair value of derivative and investments	-	-	(2,393,055)	(2,393,055)
Change in fair value of derivative liabilities	-	-	(15,143)	(15,143)
Lease termination loss and loss on sub-lease	-	(67,683)	(67,599)	(135,282)
Unrealized foreign exchange loss	-	-	(19,215)	(19,215)
Impairment of long-lived assets	-	-	(297,878)	(297,878)
Finance income	-	-	48,121	48,121
Finance expenses	(29,029)	(416,517)	(859,970)	(1,305,516)
Net loss for the period	1,223,021	1,641,376	9,638,853	12,503,250
Total assets	1,964,537	5,637,785	6,389,982	13,992,304
Total liabilities	446,143	3,031,204	9,464,217	12,941,564

22) COMMITMENTS AND CONTINGENCIES

The Company has entered into various lease agreements having terms of 2 to 120 months. These lease agreements expire between April 30, 2021 and April 30, 2025. As at January 31, 2020, the minimum annual lease payments are expected to be as follows:

	$
2021	1,194,759
2022	1,156,185
2023	1,126,068
2024	693,860
2025	158,993
2026 and there after	13,251

In the normal course of business, the Company is party to litigation, the ultimate outcome of which cannot be reasonably estimated at this time. However, management's opinion is that the likelihood of any cash outflow as a result of these matters is remote, therefore, no amounts have been provided for in these consolidated financial statements.

(Expressed in Canadian Dollars)

23) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS

The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

	January 31, 2020	December 31, 2018
Financial assets		
FVTPL		
Investments in marketable securities	2,986,518	-
Amortized cost		
Cash and cash equivalents	1,418,764	6,103,354
Accounts receivable and other receivable (exclude GST receivable)	107,850	8,611
Loan receivable	297,382	-
Net investment in the lease	460,908	
Total financial assets	5,271,422	6,111,965
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	1,285,000	-
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (exclude PST payable)	1,438,865	521,839
Due to related parties	18,861	199,974
Purchase liabilities	473,410	-
Lease liabilities	3,171,100	-
Long-term liabilities	6,530,767	243,967
Total financial liabilities	12,918,003	965,780

Financial Risk Management Objectives and Policies

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risk, credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility. Financial risks are primarily managed and monitored through operating and financing activities. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Market risk

a) Currency risk

The Company does not operate outside of Canada, does not transact in foreign currency; therefore there is no inherent Currency risk.

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's financial debt have fixed rates of interest and therefore there is no risk related to interest rate fluctuations.

c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company's investments in the marketable securities are susceptible to price risk arising from uncertainties about their future values. The fair value of these investments is based on quoted market prices which the shares of the investments can be exchanged for.

(Expressed in Canadian Dollars)

23) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

c) Price risk *(continued)*

Increase/decrease in market price by 10% would have increased/decreased investments in marketable securities by $298,651 as at January 31, 2020.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

As at January 31, 2020, the Company had $1,418,764 in cash and cash equivalents (2018 - $6,103,354). The Company is obligated to pay financial liabilities with total carrying amounts and contractual cash flows amounting to $3,001,793 in the next 12 months (2018 - $758,738).

As at January 31, 2020, the Company's financial liabilities have contractual maturities as summarized below:

	Due within					January 31, 2020
	Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
Accounts payable and accrued liabilities (exclude PST payable)	1,438,865	-	-	-	-	1,438,865
Due to related parties	18,861	-	-	-	-	18,861
Lease liability	683,979	781,753	908,122	624,239	173,007	3,171,100
Embedded derivative liability	-	1,285,000	-	-	-	1,285,000
Purchase Liability	370,180	103,230	-	-	-	473,410
Long-term liabilities	694,055	5,836,712	-	-	-	6,530,767
Total	3,205,940	8,006,695	908,122	624,239	173,007	12,918,003

	Due within					December 31, 2018
	Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
Accounts payable and accrued liabilities (exclude PST payable)	521,839	-	-	-	-	521,839
Due to related parties	199,974	-	-	-	-	199,974
Lease liability	-	-	-	-	-	
Embedded derivative liability	-	-	-	-	-	-
Purchase Liability	-	-	-	-	-	-
Long-term liabilities	-	243,967	-	-	-	243,967
Total	721,813	243,967	-	-	-	965,780

Credit Risk

Credit risk arises from cash held with banks, trade and other receivable (exclude GST receivable), and loan receivable. The Company does not have a significant concentration of risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash is held by reputable financial institutions. The Company is not aware of any material collection issues. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. Trade receivables are written off when there is no reasonable expectation of recovery. The following table summarizes the Company's aging of trade and other receivables (exclude GST receivable) and expected credit losses as at January 31, 2020:

(Expressed in Canadian Dollars)

23) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS *(continued)*

Credit Risk *(continued)*

	January 31, 2020		
	Trade and other receivables (exclude GST receivable)	Loan receivable	Expected credit losses
0-30 days	64,582	297,382	
31-60 days	19,671	-	-
61-90 days	27	-	-
Over 90 days	23,570	-	-
Total	107,850	297,382	

As at January 31, 2020, the Company had $23,597 in total overdue (over 60 days) trade and other receivables (exclude GST receivable). Subsequent to year-end, the Company collected $15,917 of the total overdue trade and other receivables (exclude GST receivable).

Fair value measurement

The Company classifies its financial instruments using a fair value hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 – Unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

	January 31, 2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
Fair value through profit or loss				
Investment in public company shares	2,986,518	-	-	2,986,518
Promissory note warrants value	-	-	142,907	142,907
Embedded derivative liability	-	-	1,285,000	1,285,000
	2,986,518	-	1,427,907	4,414,425

For cash and cash equivalents, trade and other receivables (exclude GST receivable), loan receivable, accounts payable and accrued liabilities (exclude PST payable), and due to related parties, fair value approximates their carrying value at the year end due to their short-term maturities. For net investment in finance lease, lease liability, purchase liability and long-term liabilities, fair value approximates their carrying value at the year end as the interest rates used to discount the host contracts approximate market rates.

24) CAPITAL MANAGEMENT

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, treasury shares, equity-settled employee benefits reserve, deficit, and accumulated other comprehensive loss. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the period ended January 31, 2020.

25) SUBSEQUENT EVENTS

On February 18, 2020, the Company has a of short-term loan of $500,000 owing to the CEO of the company. The loan bears interest of prime plus one percent per annum and is payable on demand.

During the period between February 20, 2020 and March 13, 2020, the Company fully divested the investment (note 10) for a net settlement price of $910,183.

On March 23, 2020, the Company settled the unsecured promissory note (note 16) related to the purchase and sale agreement to acquire the right to lease from a third party (note 13), including interest accrued for $613,684.

On April 7, 2020, the Company settled a $100,000 of the promissory note units (note 16) secured against the securities the Company holds in Tilray (note 10), including interest accrued of $4,181.

On May 11, 2020 the company closed a non-brokered private placement of secured convertible debentures ("Debentures") for gross proceeds of $1,000,000. The Debentures are secured against the assets of the Company subject to subordination to third party lenders providing the Company operational financing. Each dollar of Debenture will convert to ten preferred shares and be issued together with five common share purchase warrants. The Debentures shall automatically convert into preferred shares of the company, subject to approval of the Company's common shareholders at the Company's next shareholders meeting, at a rate of ten thousand common shares for each $1,000 of principal amount of debentures, resulting in a deemed price of $0.10 per preferred share. The secured convertible debentures will not accrue interest up to the date of the next meeting. If the conversion is not approved by the Company's shareholders, the Debentures are not converted and will accrue interest at a rate of 10% and mature on the second anniversary of the closing date. In addition, the preferred shares will be further convertible into common shares (subject to proportional adjustments for stock splits, stock dividends and alike) at any time up to the date of listing of the Company's common shares on any recognized North American securities exchange or stock market, including the Toronto Stock Exchange, the TXS Venture Exchange, or the Canadian Securities Exchange the ("Go-Public Event"). At the date of a Go-Public Event, any non-converted preferred shares will automatically convert into common shares at the applicable conversion ratio.
The warrants may not be exercised by the holder until after the earlier of: (A) the Company delivering written notice to the holder permitting such exercise; and (B) if the Company does not complete a Go-Public event by October 31, 2020. Should the Company not deliver notice permitting exercise and the Company completes a Go-Public event prior to October 31, 2020, the holder shall not have any opportunity to exercise the warrants.

25) SUBSEQUENT EVENTS *(continued)*

On May 6, 2020, the Company entered into an arms-length non-binding Letter of Intent (the “LOI”) with DC Acquisition Corp. (“DC”) to combine the businesses of the two companies. The LOI outlines the terms and conditions pursuant to which the Company and DC will complete a transaction that will result in a reverse take-over of DC by the Company (the "Proposed Transaction"). The Proposed Transaction will be an arm’s length transaction, and, if completed, will constitute DC “Qualifying Transaction” (as such term is defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). Upon completion of the Proposed Transaction, the resulting issuer (the "Resulting Issuer") will carry on the business of the Company, and intends to list as a Tier 2 industrial issuer on the TSX Venture Exchange.

On May 31, 2020, the Company settled the remaining portion of the promissory note units (note 16) secured against the securities the Company holds in Tilray (note 10), with three new convertible debentures totaling $1,750,000. The convertible debentures bear interest of 8% and is to mature on May 31, 2022. The lender may, on the date of maturity, convert all, but not less than all, of the principal, all accrued and unpaid interest less applicable withholding taxes, into common shares of the Company at a deemed issue price of $0.30 per common share. Subject to the Company going public, the holders have the option to convert all, but not less than all, of the principal, all accrued and unpaid interest less applicable withholding taxes, into common shares of the Company at a discounted go-public issue price equal to 80% of the issue price in connection with a go-public transaction.

On June 4, 2020, the Company cancelled 3,878,500 options with an average exercise price of $0.58 and issued 5,462,500 new options with an average exercise price of $0.22 to employees, directors and consultants.

In May 2020, a lawsuit was filed against certain parties, including the Company, alleging that such parties were in breach of a lease agreement with the lessor. The events in question of the breach relate to a period subsequent to January 31, 2020, thus no adjustments have been made in the financial statements. No estimate, at the date of the financial statements, could be made relating to any potential financial impact, if any, to the lessor.

Subsequent to year-end, there was a global outbreak of COVID-19 (Coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. As a result, global equity markets and oil prices have experienced significant volatility and weakness. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. Management has assessed the impact of COVID-19 on the Company to be minimal.