

**KIARO BRANDS INC.**

Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020  
and 2019 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

**KIARO BRANDS INC.**

Condensed Consolidated Interim Statements of Financial Position

As at April 30, 2020 and January 31, 2020

(Unaudited)

	Notes	April 30, 2020	January 31, 2020
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 1,264,985	\$ 1,418,764
Trade and other receivables	4	166,105	162,460
Prepays and deposits	5	71,887	207,912
Inventory	6	737,484	841,829
Investment in marketable securities	7	-	2,986,518
Loan receivable	8	301,170	297,382
Net investment in finance lease	10	171,439	130,483
		<u>2,713,070</u>	<u>6,045,348</u>
<b>Non-current assets</b>			
Lease deposits	5	173,436	183,742
Property and equipment	9	1,845,041	1,749,072
Right-of-use assets	10	4,463,593	4,944,646
Net investment in finance lease	10	416,491	460,908
Intangible assets and goodwill	11	608,588	608,588
		<u>7,507,149</u>	<u>7,946,956</u>
<b>TOTAL ASSETS</b>		<b><u>10,220,219</u></b>	<b><u>13,992,304</u></b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liability		1,522,839	1,462,427
Due to related parties	14	374,510	18,861
Restricted deposits	20	217,000	-
Current portion of lease liability	10	681,893	683,979
Current portion of purchase liability		386,803	370,180
Current portion of long-term liabilities	12	91,639	694,055
		<u>3,274,684</u>	<u>3,229,502</u>
<b>Non-current liabilities</b>			
Long-term portion of lease liability	10	2,033,238	2,487,121
Long-term portion of purchase liability		-	103,230
Embedded derivative liability	12	1,332,783	1,285,000
Long-term liabilities	12	6,026,773	5,836,711
		<u>9,392,794</u>	<u>9,712,062</u>
<b>TOTAL LIABILITIES</b>		<b><u>12,667,478</u></b>	<b><u>12,941,564</u></b>
<b>Equity attributable to shareholders</b>			
Share capital	13	14,394,595	14,987,041
Reserves	13	2,091,359	1,186,081
Accumulated deficit		(18,933,213)	(15,122,382)
<b>TOTAL EQUITY</b>		<b><u>(2,447,259)</u></b>	<b><u>1,050,740</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>\$ 10,220,219</u></b>	<b><u>\$ 13,992,304</u></b>

Going concern (Note 1)

Commitment and contingencies (Note 17)

Subsequent events (Note 19)

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

On behalf of the board:

"Daniel Petrov"

Daniel Petrov

**KIARO BRANDS INC.**

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss  
For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019  
(Unaudited)

	Notes	April 30, 2020	April 30, 2019
<b>Revenue</b>			
Revenue		\$ 2,666,711	\$ 500,681
Cost of sales		1,951,426	337,015
Gross profit		715,285	163,666
<b>Operating Expenses</b>			
Consulting		53,245	213,657
Depreciation and amortization	9,10	293,915	287,111
Maintenance		35,907	75,358
Marketing and brand development		34,483	235,659
Meals and entertainment		1,435	12,578
Office and administration		147,418	238,355
Professional fees		184,341	130,694
Salaries and employee benefits	14	746,695	896,129
Share-based compensation	13	396,082	44,208
Travel		5,777	57,318
Inventory write-down	6	19,188	-
		(1,918,486)	(2,191,067)
<b>Other (expenses) income</b>			
Change in fair value of derivative liabilities	12	(23,501)	-
Lease termination loss and loss on sub-lease	10	(53,422)	-
Foreign exchange gain	7	38,413	-
Finance income		-	16,661
Finance expense	12,10	(463,572)	(114,845)
Realized loss on sale of marketable securities	7	(2,105,548)	-
		(2,607,630)	(98,184)
<b>Net loss and comprehensive loss</b>		<b>\$ (3,810,831)</b>	<b>\$ (2,125,585)</b>
<b>Loss per share, basic and diluted</b>		<b>\$ (0.04)</b>	<b>\$ (0.11)</b>
<b>Weighted average common shares outstanding - basic and diluted</b>		<b>97,568,432</b>	<b>18,586,853</b>

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

**KIARO BRANDS INC.**

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity  
 For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019  
 (Unaudited)

	Notes	Common Shares		Long-Term Liability Reserve	Share-based Payment Reserve		Deficit	Total Equity
		Number of Shares	Amount					
Balance on January 1, 2019		16,344,600	8,720,363	92,379	318,000	(2,619,132)	<b>6,511,610</b>	
Elora shares issued for cash		3,402,110	83,495	-	-	-	<b>83,495</b>	
<b>Balance on April 30, 2019</b>		<b>19,746,710</b>	<b>8,803,858</b>	<b>92,379</b>	<b>318,000</b>	<b>(2,619,132)</b>	<b>6,595,105</b>	
Balance on January 31, 2020		98,048,458	14,987,041	142,907	1,043,174	(15,122,382)	<b>1,050,740</b>	
Reclass of warrants value on prior issuance		-	(509,196)	-	509,196	-	-	
Shares converted to debentures	12	(500,000)	(100,000)	-	-	-	<b>(100,000)</b>	
Shares issued for services rendered	13	28,583	16,750	-	-	-	<b>16,750</b>	
Share based compensation	13	-	-	-	396,082	-	<b>396,082</b>	
Net loss and comprehensive loss for the period		-	-	-	-	(3,810,831)	<b>(3,810,831)</b>	
<b>Balance on April 30, 2020</b>		<b>97,577,041</b>	<b>14,394,595</b>	<b>142,907</b>	<b>1,948,452</b>	<b>(18,933,213)</b>	<b>(2,447,259)</b>	

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

**KIARO BRANDS INC.**

Condensed Consolidated Interim Statement of Cash Flows

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Unaudited)

	<b>April 30, 2020</b>	<b>April 30, 2019</b>
Cash provided by (used in):		
<b>Operating activities:</b>		
Net loss	\$ (3,810,831)	\$ (2,125,585)
Non-cash items:		
Depreciation and amortization	293,915	287,111
Share-based compensation	396,082	44,208
Shares issued for services	16,750	-
Inventory write-down	19,188	-
Foreign exchange gain	(38,413)	-
Finance expense	371,504	70,279
Loss on fair value of embedded derivative	23,501	-
Lease termination loss and loss on sub-lease	53,422	-
Realized Loss on sale of Investment	2,105,548	-
Changes in non-cash working capital:		
Trade and other receivables	(3,645)	(109,621)
Prepays and deposits	136,025	(194,149)
Inventory	85,157	(293,686)
Accounts payable and accrued liability	(60,413)	(88,886)
	(412,210)	(2,410,329)
<b>Investing activities:</b>		
Property and equipment	(264,057)	(873,124)
Proceeds from sale of marketable securities	910,183	-
Payments towards prior year business combination	(106,250)	(448,442)
	539,876	(1,321,566)
<b>Financing activities:</b>		
Payments received relating to restricted deposits	217,000	-
Due to related parties	-	228,197
Loan proceeds from CEBA	40,000	-
Loan received from related party	500,000	-
Repayments on loan from related party	(150,000)	-
Payments received on net investment in finance lease	54,583	-
Payments on lease obligations	(243,028)	(265,086)
Loan repayment	(700,000)	-
	(281,445)	(36,889)
Net change in cash and cash equivalents	(153,779)	(3,768,784)
Cash and cash equivalents, beginning	1,418,764	6,103,354
<b>Cash and cash equivalents, ending</b>	<b>\$ 1,264,985</b>	<b>\$ 2,334,570</b>

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

## **KIARO BRANDS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

### **1) NATURE OF OPERATIONS AND GOING CONCERN**

Kiara Brands Inc. (“Kiara” or the “Company”) was formed on September 9, 2019 through the amalgamation of Aura Cannabis Inc. (“Aura”) and Elora Capital Ltd. (“Elora”), 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 Kiara; and each issued and outstanding Elora share was cancelled, and the holder of each Elora share received one common share of Kiara. Following the amalgamation, both Aura and Elora were dissolved.

#### **Going Concern Assumption**

These condensed consolidated interim financial statements for the period ended April 30, 2020 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 condensed consolidated interim 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. The Company has incurred losses and negative cash flows from operations and as at April 30, 2020 has an accumulated deficit of \$19,042,840. These factors indicate a material uncertainty that may cast significant doubt about the Company being able to continue as a going concern.

The condensed consolidated interim financial statements for the period ended April 30, 2020, do not reflect adjustments that would be necessary if the going concern basis was not appropriate. Consequently, adjustments could then be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the classifications of assets and liabilities in the statement of financial position. Such adjustments, if required, could be material.

### **2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Statement of Compliance**

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) following the guidance International Accounting Standards 34, “Interim Financial Reporting” (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”), and interpretations of the IFRS Interpretations Committee (“IFRIC”).

These condensed consolidated interim financial statements were approved by the Board of Director on August 13, 2020.

## **KIARO BRANDS INC.**

Notes to the Condensed Consolidated Interim Financial Statements  
For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019  
(Expressed in Canadian Dollars)

### **2) BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

#### **b) Basis of presentation and measurement**

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments which are measured at fair value. In addition, these condensed consolidated interim 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.

The Condensed Consolidated Interim Financial Statements are presented in Canadian dollars and are prepared in accordance with the same accounting policies, critical estimates and methods described in the company's annual audited consolidated financial statements for the thirteen months ended January 31, 2020 and the year ended December 31, 2018 (the "Annual Audited Consolidated Financial Statements"). Given that certain information and footnote disclosures, which are included in the annual audited financial statements, have been condensed or excluded in accordance with IAS 34, these financial statements should be read in conjunction with our annual audited consolidated financial statements as at the year ended January 31, 2020, including the accompanying notes thereto.

The four month period from January 1 to April 30, 2019, is used as a basis for comparison to the current three month period from February 1 to April 30, 2020, which was the result of a change in the fiscal year end from December 31<sup>st</sup> to January 31<sup>st</sup>.

#### **c) Consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. These condensed consolidated interim 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:

<b>Subsidiaries</b>	<b>Percentage Ownership</b>
National Cannabis Distribution Inc.	100%
Kiaro Retail BC Ltd.	100%
2209917 Alberta Ltd.	100%

#### **d) Functional and presentation currency**

These condensed consolidated interim 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) NEW AND REVISED STANDARDS**

The Company has adopted the following new or amended IFRS standards for the period ended April 30, 2020, which was effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively.

## KIARO BRANDS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

### NEW AND REVISED STANDARDS *(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 adoption of this amendment does not have a material on the Company's condensed consolidated interim financial statements.

#### 4) TRADE AND OTHER RECEIVABLES

	April 30, 2020	January 31, 2020
	\$	\$
Trade receivables	42,675	29,992
GST receivable	41,243	54,610
Other receivables	82,187	77,858
	166,105	162,460

#### 5) PREPAIDS AND DEPOSITS

	April 30, 2020	January 31, 2020
	\$	\$
Prepaid	62,170	195,350
Lease deposits	173,436	183,742
Other deposits	9,717	12,562
	245,323	391,654
Current prepaid expenses	71,887	207,912
Long-term lease deposits	173,436	183,742
	245,323	391,654

#### 6) INVENTORY

As at April 30, 2020, the Company had inventory totaling \$737,484 (January 31, 2020 – \$841,829), which consists of finished products such as recreational cannabis and accessories purchased from third parties for resale. During the period ended April 30, 2020, \$1,951,426 of inventory was recognized as cost of sales (April 30, 2019 - \$337,015), and inventory was reduced by \$19,188 as a result of a write-down to net realizable value (April 30, 2019 - \$nil).



## KIARO BRANDS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

### 7) INVESTMENTS IN MARKETABLE SECURITIES

	<b>Investment in marketable securities</b>
	\$
Balance, January 31, 2020	2,986,518
Net proceeds received from sale of investment	(910,183)
Interest and bank charges on sale of investment	(9,200)
Realized loss on sale of investment	(2,105,548)
Realized foreign exchange gain	38,413
Balance, April 30, 2020	-

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. In March 2020, the Company sold the Tilray investment for net proceeds of \$910,183, resulting in a realized and recognized loss of \$2,105,548 and a realized foreign exchange gain of \$38,413.

### 8) LOAN RECEIVABLE

On June 19, 2019, the Company entered a secured convertible debenture agreement with a third party, pursuant to which the Company lent \$300,000 to this party. The convertible debenture has a maturity date of December 31, 2019, bears interest at 10% per annum, and is collateralized by 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. The 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.

**KIARO BRANDS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

**9) PROPERTY AND EQUIPMENT**

	<b>Furniture and fixture</b>	<b>Computer equipment</b>	<b>Leasehold improvement</b>	<b>Software</b>	<b>Website</b>	<b>Total</b>
<b>Cost</b>	\$	\$	\$	\$	\$	\$
January 31, 2020	103,681	191,817	1,871,352	103,085	52,763	2,322,698
Additions	-	29,160	232,248	2,648	-	264,056
April 30, 2020	103,681	220,977	2,103,600	105,733	52,763	2,586,754

	<b>Furniture and fixture</b>	<b>Computer equipment</b>	<b>Leasehold improvement</b>	<b>Software</b>	<b>Website</b>	<b>Total</b>
<b>Accumulated depreciation</b>	\$	\$	\$	\$	\$	\$
January 31, 2020	26,440	85,381	382,933	50,216	28,656	573,626
Depreciation and amortization	5,184	24,296	120,617	10,735	7,255	168,087
April 30, 2020	31,624	109,677	503,550	60,951	35,911	741,713

	<b>Furniture and fixture</b>	<b>Computer equipment</b>	<b>Leasehold improvement</b>	<b>Software</b>	<b>Website</b>	<b>Total</b>
<b>Net book value</b>	\$	\$	\$	\$	\$	\$
January 31, 2020	77,241	106,436	1,488,419	52,869	24,107	1,749,072
April 30, 2020	72,057	111,300	1,600,050	44,782	16,852	1,845,041

**10) RIGHT-OF-USE ASSETS AND LEASE LIABILITIES**

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

	<b>Retail space, Offices and Warehouse</b>
	\$
<b>Cost</b>	
Balance at January 31, 2020	4,944,646
Amendments	(301,803)
Derecognition from sublease	(53,422)
Amortization	(125,828)
<b>Balance at April 30, 2020</b>	<b>4,463,593</b>

## KIARO BRANDS INC.

Notes to the Condensed Consolidated Interim Financial Statements  
For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019  
(Expressed in Canadian Dollars)

### 10) RIGHT-OF-USE ASSETS AND LEASE LIABILITIES *(continued)*

#### ***Lease liabilities***

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

	<b>Retail space, Offices and Warehouse</b>
	\$
<b>Cost</b>	
Balance at January 31, 2020	3,171,100
Payments net of interest	(145,151)
Amendments	(310,818)
<b>Balance at April 30, 2020</b>	<b>2,715,131</b>
Current portion	681,893
Long-term portion	2,033,238

The Company has recognized the interest expense on lease liabilities in the amount of \$113,476 (April 30, 2019 - \$104,307) in the condensed consolidated interim statements of loss and comprehensive loss.

The Company has recognized cash outflow for leases of \$243,028 (April 30, 2019 - \$265,086) in the condensed consolidated interim statement of cash flows.

During the period ended April 30, 2020, an amount of \$53,422 (April 30, 2019 - \$nil) was recognized for lease termination loss and loss on sub-lease for various lease agreements.

The company used a weighted average incremental borrowing rate of 17.95% at the date of the initial application.

#### ***Net investment in finance lease***

The Company has entered into third party sublease agreements. The Company's net investment in finance lease is presented in the condensed consolidated interim statements of financial position as follows:

<b>Cost</b>	\$
Balance at January 31, 2020	591,391
Additions	82,756
Amendments	(55,626)
Interest accretion	23,992
Lease receipts	(54,583)
<b>Balance at April 30, 2020</b>	<b>587,930</b>
Current	171,439
Non-Current	416,491

## KIARO BRANDS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

### 10) RIGHT-OF-USE ASSETS AND LEASE LIABILITIES *(continued)*

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 19 table for financial liabilities with contractual maturities information.

	\$
Less than one year	259,558
One to two years	270,081
Two to three years	212,632
Three to four years	-
Total undiscounted lease payments receivable	742,271
Less: interest accretion	(154,341)
Net investment in lease at April 30, 2020	<b>587,930</b>

### 11) INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Intangible assets - license	Total intangible assets and goodwill
January 31 and April 30, 2020	458,588	150,000	608,588

### 12) LONG-TERM LIABILITIES

	April 30, 2020	January 31, 2020
	\$	\$
Promissory notes (i-ii)	1,650,156	2,322,660
Convertible debenture (iii-iv)	4,428,256	4,208,106
Canada Emergency Business Account Loan	40,000	-
	6,118,412	6,530,766
Current portion	91,639	694,055
Long-term portion	6,026,773	5,836,711

- (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 consists 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 (totaling 3,052,500 warrants), 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 13). The Notes were to 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 was secured against the Tilray shares the Company held (note 7) or the proceeds derived from the Company upon the sale of the Tilray shares. As a result of the loss from the sale of the marketable securities, the Company did use any of the proceeds to repay the Note Units. As at April 30, 2020, the Note Units were unsecured and the holders of the Note Units had agreed to not call for repayment for twelve months from January 31, 2020. On April 7<sup>th</sup>, 2020, one of the promissory notes with a face value of \$100,000 was settled for \$104,181 including accrued interest.

## KIARO BRANDS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three Months Ended April 30, 2020 and the Four Months Ended April 30, 2019

(Expressed in Canadian Dollars)

### 12) LONG-TERM LIABILITIES (continued)

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 reserves 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 10), 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 debt was settled on March 13, 2020, for \$613,644 including accrued interest.

Details of movements in the promissory note and unit balances are as follows:

	April 30, 2020	January 31, 2020
	\$	\$
Promissory notes (i-ii)	1,650,156	2,322,660
Convertible debenture (iii-iv)	4,428,256	4,208,106
Canada Emergency Business Account Loan	40,000	-
	6,118,412	6,530,766
Current portion	91,639	694,055
Long-term portion	6,026,773	5,836,711

During the period ended April 30, 2020, no interest payment was made, and \$56,710 of interest payable is recorded in accounts payable and accrued liabilities (April 30, 2019 - \$nil).

- (iii) 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 a 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.

As at April 30, 2020 and January 31, 2020, the conversion feature was remeasured at fair value, and the debt component was measured at amortized cost using effective interest rate of 22% - 24%.

- (iv) On February 1, 2020, the Company entered into an agreement with a third party for a convertible debenture in the amount of \$100,000. The convertible debenture bears interest at 8% and is to mature on February 1, 2022. The lender may, at any time, convert all or portion of the principal into common shares of the Company at a value of \$0.432 per common share. The Company recognized a derivative liability of \$24,281 on inception of the convertible debentures.
- (v) On April 29, 2020, the Company entered into an agreement with a third party for a loan in the amount of \$40,000. The loan bears interest at 0% until December 31, 2022, and 5% thereafter from January 1, 2023 until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2023, and the balance by December 31, 2025.

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### 12) LONG-TERM LIABILITIES (continued)

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

	Convertible debenture	Derivative liability	Total
	\$	\$	\$
Balance, January 31, 2020	4,208,107	1,285,000	5,493,107
Convertible debt issued (iv)	75,719	24,281	100,000
Accretion of convertible debentures	144,430	-	144,430
Change in fair value of derivative liability	-	23,502	23,502
Balance, April 30, 2020	4,428,256	1,332,783	5,761,039

Key assumptions that were used in the fair value of embedded derivative include the risk-free interest rate (0.29%). The change in fair value of embedded derivative liability of \$23,502 was recognized in the condensed consolidated interim statements of loss.

As at April 30, 2020, interest payable related to the convertible debentures of \$332,544 was accrued and included in the accounts payable and accrued liabilities.

### 13) SHARE CAPITAL

#### Authorized

Unlimited number of common shares, without par value.

#### Issued

*During the period ended April 30, 2020:*

On February 1, 2020, Kiaro bought back and cancelled 500,000 shares, in exchange, the investor subscribed to a debenture equal to \$100,000 (note 12).

In February 2020, Kiaro issued 28,583 common shares at a price of \$0.586 per common share for services rendered.

#### 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.

For the period ended April, 30, 2020, the Company recorded stock-based compensation of \$273,193 (Q1 2020 \$44,208) for options vested.

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**13) SHARE CAPITAL (continued)***During the period ended April 30, 2020, no new options were issued per the table below:*

	Number of options	Weighted average exercise price
Options outstanding, January 31 and April 30, 2020	3,682,500	\$0.553
Options exercisable, January 31 and April 30, 2020	295,000	\$0.200

Details of options outstanding as at April 30, 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	2,262,500
\$0.586	October 21, 2029	625,000
\$0.586	December 17, 2019	250,000
\$0.586	January 1, 2030	250,000
		<b>3,682,500</b>

The weighted average life for the options outstanding was 9.33 years (January 31, 2020 – 9.27). The weighted average fair value of options granted during the period was \$nil (January 31, 2020 - \$0.553).

**Warrants**

The Company recorded stock-based compensation of \$122,888 for warrants vested during the period ended April 30, 2020.

*During the period ended April 30, 2020, no new warrants were issued per the table below:*

	Number of options	Weighted average exercise price
Warrants outstanding, January 31 and April 30, 2020	9,214,198	\$0.424
Warrants exercisable, April 30, 2020	5,150,778	\$0.437

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### 13) SHARE CAPITAL (continued)

Details of warrants outstanding as at April 30, 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
		<u>9,214,198</u>

The weighted average remaining life for the warrants outstanding is 4.358 years.

### 14) 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.

	April 30, 2020	April 30, 2019
	\$	\$
Salaries and benefits	45,396	216,264
Consulting fee	45,000	\$nil
Share-based compensation	158,595	24,615
Total key management compensation	<u>\$248,991</u>	<u>\$240,879</u>

During the period ended April 30, 2020, the Company incurred \$45,000 (2019 - \$nil) in consulting fees to a company controlled by the interim CFO, and \$45,396 (2019 - \$216,264) in salaries paid to the CEO, the COO and the former CFO of the Company.

At April 30, 2020, the Company owed \$8,255 to a company controlled by the CEO, \$576 to the COO, and \$15,750 to a company controlled by the interim CFO.

During the period ended April 30, 2020, the Company had entered an unsecured \$500,000 short-term loan with the CEO of the Company. The loan bears interest of prime plus one percent per annum and is payable on demand. As of April 30, 2020, the balance of the loan was \$358,166, which included an interest accrual of \$3,985.

During the period ended April 30, 2020, the Company repaid a promissory note issued to a company controlled by the CFO totaling \$104,181 including accrued interest.



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### 15) REVENUE

Major components of revenues are as follows:

	April 30, 2020	April 30, 2019
	\$	\$
Recreational cannabis	2,625,020	475,122
Accessories and other	41,691	25,559
	2,666,711	500,681

The Company did not have a concentration of credit risk to any individual customers as at April 30, 2020 and April 30, 2019.

### 16) SEGMENTED INFORMATION

Throughout the period ended April 30, 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 of the Company's revenue is earned and assets are located in Canada.

Period ended April 30, 2020	Wholesale cannabis business	Retail cannabis stores	Corporate	Eliminations and adjustments	Total
Revenue	1,103,546	1,563,165	-	-	2,666,711
Intercompany revenue	232,650	-	-	(232,650)	-
Total revenue	1,336,196	1,563,165	-	(232,650)	2,666,711
Cost of goods sold	1,210,525	969,943	-	(229,042)	1,951,426
Gross profit	125,671	593,222	-	(3,608)	715,285
Operating expenses	108,612	769,414	1,040,460	-	1,918,486
Income (loss) from operations	17,059	(176,192)	(1,040,460)	(3,608)	(1,203,201)
Change in fair value of derivative liabilities	-	-	(23,501)	-	(23,501)
Lease termination loss and loss on sub-lease	-	-	(53,422)	-	(53,422)
Foreign exchange gain	-	-	38,413	-	38,413
Finance expense	-	-	(463,572)	-	(463,572)
Realized loss on sale of investments	-	-	(2,105,548)	-	(2,105,548)
Net loss for the period	17,059	(176,192)	(3,648,090)	(3,608)	(3,810,831)
Total assets	769,985	7,417,101	2,041,500	(8,367)	10,220,219
Total liabilities	567,361	1,065,673	10,994,784	39,660	12,667,478

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### 17) COMMITMENTS AND CONTINGENCIES

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 condensed consolidated interim financial statements.

### 18) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS

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

	April 30, 2020	January 31, 2020
Financial assets		
FVTPL		
Investments in marketable securities	-	2,986,518
Amortized cost		
Cash and cash equivalents	1,264,985	1,418,764
Trade and other receivables (excluding GST receivable)	124,862	107,850
Loan receivable	301,170	297,382
Net investment in finance lease	587,930	591,391
Total financial assets	2,278,947	5,401,905
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	1,332,783	1,285,000
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (excluding PST payable)	1,503,199	1,438,865
Due to related parties	374,510	18,861
Purchase liabilities	386,803	473,410
Lease liabilities	2,715,131	3,171,100
Long-term liabilities	6,118,412	6,530,767
Total financial liabilities	12,430,838	12,918,003

### 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:

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### **18) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS** *(continued)*

#### **Market risk**

##### a) Currency risk

The Company does not operate outside of Canada, does not transact in foreign currency; there is therefore 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. Cash bears interest at market rates. The Company's long-term liabilities with fixed rates of interest do not expose the Company to interest rate risk. The Company's long-term liabilities with an interest rate of prime rate plus a margin will be affected by fluctuations in the Canadian prime interest rate, which can have an impact on the interest expense recognized. The Company's long-term liabilities have fixed interest rates, and therefore the Company is not exposed to this risk.

##### c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is currently not subject to price risk. In the prior year, 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.

#### **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 April 30, 2020, the Company had \$1,264,985 in cash and cash equivalents (January 31, 2020 - \$1,418,764). The Company is obligated to pay financial liabilities with total carrying amounts and contractual cash flows amounting to \$3,057,684 in the next 12 months (January 31, 2020 - \$3,229,502).

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### 18) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS (continued)

As at April 30, 2020, the Company's financial liabilities have contractual maturities as summarized below:

	Due within					April 30, 2020
	Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
Accounts payable and accrued liabilities (excluding PST payable)	1,522,839	-	-	-	-	1,522,839
Due to related parties	374,510	-	-	-	-	374,510
Lease liability	681,893	731,113	866,933	340,289	94,902	2,715,131
Embedded derivative liability	-	1,332,783	-	-	-	1,332,783
Purchase Liability	386,803	-	-	-	-	386,803
Long-term liabilities	91,639	6,026,773	-	-	-	6,118,412
<b>Total</b>	<b>3,057,684</b>	<b>8,090,669</b>	<b>866,933</b>	<b>340,289</b>	<b>94,902</b>	<b>12,450,478</b>

	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 (excluding PST payable)	1,462,427	-	-	-	-	1,462,427
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
<b>Total</b>	<b>3,229,502</b>	<b>8,006,695</b>	<b>908,122</b>	<b>624,239</b>	<b>173,007</b>	<b>12,941,565</b>

### Credit Risk

Credit risk arises from cash and cash equivalents held with banks, trade and other receivable (excluding GST receivable), and loan receivable. The Company does not have a significant concentration of credit 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 and cash equivalents are 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 (excluding GST receivable) and expected credit losses as at April 30, 2020:

	April 30, 2020		
	Trade and other receivables (excluding GST receivable)	Loan receivable	Expected credit losses
0-30 days	98,589	-	-
31-60 days	-	-	-
61-90 days	-	-	-
Over 90 days	26,273	301,170	-
<b>Total</b>	<b>124,862</b>	<b>301,170</b>	

As at April 30, 2020, the Company had \$26,273 in total overdue (over 60 days) trade and other receivables (excluding GST receivable). Subsequent to the end of the quarter, the Company collected \$26,273 of the total overdue trade and other receivables (excluding GST receivable).

As at April 30, 2020, the Company was in the process of settling the loan receivable of \$301,170 through an exchange of a convertible debenture with a related company.

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### 18) FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS (continued)

#### 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.

	April 30, 2020			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Fair value through profit or loss</b>				
Embedded derivative liability	-	-	1,332,783	1,332,783
	-	-	1,332,783	1,332,783

For cash and cash equivalents, trade and other receivables (excluding GST receivable), loan receivable, accounts payable and accrued liabilities (excluding 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, 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.

### 19) SUBSEQUENT EVENTS

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 were secured against the assets of the Company subject to subordination to third party lenders providing the Company operational financing. Each dollar of Debenture would convert to ten preferred shares and were issued together with five common share purchase warrants. At the shareholders meeting on July 7, 2020, the shareholders approved the Debentures converting into preferred shares of the company, 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 did not accrue interest up to the date of the shareholders meeting. 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 TSX 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. As at April 30, 2020, the Company had received \$217,000 of refundable deposits towards the private placement.

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### **19) 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.

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 April 30, 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.

On May 31, 2020, the Company issued 416,667 shares at \$0.144 per share (\$60,000) as a debt settlement to a third party for consulting services rendered.

On June 4, 2020, the Company cancelled 3,387,500 options with an average exercise price of \$0.58 and issued 5,337,500 new options with an average exercise price of \$0.22 to employees, directors and consultants.

On June 9, 2020, the Company advanced the Proposed Transaction by entering into a definitive agreement (the "Merger Agreement") dated June 9, 2020, with DCA.

In July 2020, the Company entered into a loan agreement in the amount of \$225,000 with DCA relating to the qualifying transaction. The loan has a one year term and bears interest at 4% and was fully received upon approval of the Exchange.