



**KIARO HOLDINGS CORP.**  
(FORMERLY DC ACQUISITION CORP.)

Consolidated Financial Statements

For the year ended January 31, 2021  
and the thirteen months ended January 31, 2020  
(Expressed in Canadian Dollars)



## Independent Auditor's Report

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To the Shareholders of Kiaro Holdings Corp. (formerly DC Acquisition Corp.):

### Opinion

We have audited the consolidated financial statements of Kiaro Holdings Corp. (formerly DC Acquisition Corp.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2021 and January 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended January 31, 2021 and the thirteen months ended January 31, 2020, 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, 2021 and January 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year ended January 31, 2021 and the thirteen months ended January 31, 2020 in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audits 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 audits 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.

### Other Information

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

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

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

### Responsibilities of Management and Those Charged with Governance for the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Mississauga, Ontario  
May 3, 2021

*MNP LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

**KIARO HOLDINGS CORP.**  
**(formerly DC Acquisition Corp.)**

Consolidated Statements of Financial Position  
As at January 31, 2021 and January 31, 2020  
(Expressed in Canadian Dollars)

	Notes	January 31, 2021	January 31, 2020
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,304,829	1,418,764
Trade and other receivables	7	142,083	162,460
Prepays and deposits	8	181,454	207,912
Inventory	9	1,744,244	841,829
Investment in marketable securities	10	-	2,986,518
Loan receivable	11	-	297,382
Net investment in finance lease	13	156,915	130,483
		<b>3,529,525</b>	<b>6,045,348</b>
<b>Non-current assets</b>			
Lease deposits	8	99,305	183,742
Property and equipment	12	1,597,630	1,749,072
Right-of-use assets	13	3,617,822	4,944,646
Net investment in finance lease	13	212,447	460,908
Intangible assets and goodwill	5,14	608,588	608,588
		<b>6,135,792</b>	<b>7,946,956</b>
<b>TOTAL ASSETS</b>		<b>9,665,317</b>	<b>13,992,304</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	15	1,325,421	1,462,426
Due to related parties	18	147,817	18,861
Current portion of lease liabilities	13	723,904	683,979
Current portion of purchase liability	5	103,230	370,180
Current portion of long-term liabilities	16	120,283	694,055
		<b>2,420,655</b>	<b>3,229,501</b>
<b>Non-current liabilities</b>			
Long-term portion of lease liabilities	13	1,587,046	2,487,121
Long-term portion of purchase liability	5	-	103,230
Embedded derivative liabilities	16	208,386	1,285,000
Long-term liabilities	16	620,236	5,836,712
		<b>2,415,668</b>	<b>9,712,063</b>
<b>TOTAL LIABILITIES</b>		<b>4,836,323</b>	<b>12,941,564</b>
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>			
Share capital	17	26,386,873	14,987,041
Reserves	17	2,901,540	1,186,081
Accumulated deficit		(24,459,419)	(15,122,382)
<b>TOTAL EQUITY</b>		<b>4,828,994</b>	<b>1,050,740</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>9,665,317</b>	<b>13,992,304</b>

Qualifying Transaction (Note 6)  
Commitments and Contingencies (Note 23)  
Subsequent Events (Note 25)

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

On behalf of the board: "Herrick Lau"                      "Janet Hoffar"  
Herrick Lau    Janet Hoffar

**KIARO HOLDINGS CORP.**  
**(formerly DC Acquisition Corp.)**

Consolidated Statements of Loss and Comprehensive Loss

For the Year Ended January 31, 2021 and the Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

	Notes	Year ended January 31, 2021	Thirteen months ended January 31, 2020
		\$	\$
<b>Revenue</b>			
Revenue	19	17,071,866	5,171,836
Cost of sales	9	11,957,658	3,829,871
Gross profit		5,114,208	1,341,965
<b>Operating expenses</b>			
Consulting		458,381	889,247
Depreciation and amortization	12,13	1,866,786	1,988,336
Goodwill Impairment	4,14	-	445,000
Inventory write-down	9	19,188	52,940
Maintenance		201,796	281,896
Marketing and brand development		234,876	577,796
Meals and entertainment		7,500	24,603
Office and administration		615,090	636,494
Professional fees		551,325	583,199
Salaries and employee benefits	17,18	3,739,749	3,321,396
Share-based compensation	17	1,135,961	798,174
Travel		12,465	128,166
		8,843,117	9,727,247
<b>Other (expenses) income</b>			
Change in fair value of marketable securities	10	-	(2,393,055)
Change in fair value of derivative liabilities	16	(27,094)	(15,143)
Finance income		182,032	48,121
Finance expense	13,16	(1,598,042)	(1,305,516)
Foreign exchange gain	10	38,413	-
Impairment of long-lived assets		-	(297,878)
Lease termination loss and loss on sublease	13	(205,750)	(135,282)
Loss on disposal of assets		(625)	-
Loss on modification and extinguishment of debt	16	(99,441)	-
Realized loss on sale of marketable securities	10	(2,105,548)	-
Transaction cost of qualifying transaction	6	(1,792,073)	-
Unrealized foreign exchange gain		-	(19,215)
		(5,608,128)	(4,117,968)
<b>Net loss and comprehensive loss</b>		<b>(9,337,037)</b>	<b>(12,503,250)</b>
<b>Loss per share, basic and diluted</b>		<b>(0.08)</b>	<b>(0.25)</b>
Weighted average common shares outstanding - basic			
and diluted		112,942,009	50,677,414

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

**KIARO HOLDINGS CORP.**  
**(formerly DC Acquisition Corp.)**

Consolidated Statements of Changes in Shareholders' Equity  
For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020  
(Expressed in Canadian Dollars)

	Notes	Share Capital				Long-Term Liability Reserve	Share-Based Payment Reserve	Deficit	Total Equity
		Common Shares	Amount	Preferred Shares	Amount				
		#	\$	#	\$	\$	\$	\$	
Balance on December 31, 2018	17	16,344,600	8,720,363	-	-	92,379	318,000	(2,619,132)	6,511,610
Elora shares issued for cash	17	3,402,110	83,495	-	-	(92,379)	-	-	(8,884)
Shares issued on conversion of loans	17	600,000	353,348	-	-	-	-	-	353,348
Bonus shares issued	17	5,000	5,000	-	-	-	-	-	5,000
Kiara shares issued for cash	17	68,000	68,000	-	-	-	(68,000)	-	-
Aura shares exchanged for Kiara	17	(17,017,600)	-	-	-	-	-	-	-
Elimination of Elora Shares	17	(3,402,110)	(83,495)	-	-	-	-	-	(83,495)
Amalgamation shares for Elora	17	3,402,110	28,889	-	-	-	-	-	28,889
Kiara shares issued for Aura (1:5 exchange)	17	85,088,000	-	-	-	-	-	-	-
Shares issued pursuant to purchase agreement	17	925,925	400,000	-	-	-	-	-	400,000
Shares issued pursuant to services rendered	17	100,000	12,654	-	-	-	-	-	12,654
Shares issued in financing	17	8,532,423	5,398,787	-	-	-	-	-	5,398,787
Share-based compensation	17	-	-	-	-	-	793,174	-	793,174
Promissory note warrants value		-	-	-	-	142,907	-	-	142,907
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(12,503,250)	(12,503,250)
<b>Balance on January 31, 2020</b>		<b>98,048,458</b>	<b>14,987,041</b>	<b>-</b>	<b>-</b>	<b>142,907</b>	<b>1,043,174</b>	<b>(15,122,382)</b>	<b>1,050,740</b>
Shares cancelled in financing	17	(8,532,423)	(5,398,787)	-	-	-	-	-	(5,398,787)
Shares replaced in financing	17	8,532,423	4,889,591	-	-	-	509,196	-	5,398,787
Shares converted to debentures	16	(500,000)	(100,000)	-	-	-	-	-	(100,000)
Equity component on convertible loan	16	-	-	-	-	98,239	-	-	98,239
Shares issued for services rendered	17	445,249	76,750	-	-	-	-	-	76,750
Convertible debentures converted to preferred shares	16	-	-	10,000,000	922,415	-	-	-	922,415
Preferred shares converted to common shares	16	10,000,000	1,020,654	(10,000,000)	(922,415)	(98,239)	-	-	-
Convertible debentures converted to common shares	16	45,155,309	7,236,624	-	-	-	-	-	7,236,624
Shares issued on reverse take over	6	20,416,663	3,675,000	-	-	-	-	-	3,675,000
Options issued as part of qualifying transtion	6	-	-	-	-	-	70,302	-	70,302
Share-based compensation	17	-	-	-	-	-	1,135,961	-	1,135,961
Net loss and comprehensive loss for the year		-	-	-	-	-	-	(9,337,037)	(9,337,037)
<b>Balance on January 31, 2021</b>		<b>173,565,679</b>	<b>26,386,873</b>	<b>-</b>	<b>-</b>	<b>142,907</b>	<b>2,758,633</b>	<b>(24,459,419)</b>	<b>4,828,994</b>

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

**KIARO HOLDINGS CORP.**  
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Consolidated Statements of Cash Flows

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

	Year ended January 31, 2021	Thirteen months ended January 31, 2020
	\$	\$
Cash provided by (used in):		
<b>Operating activities:</b>		
Net loss	(9,337,037)	(12,503,250)
Non-cash items:		
Depreciation and amortization	1,866,786	1,988,336
Share-based compensation	1,135,961	798,174
Shares issued for services	76,750	12,654
Inventory write-down	19,188	52,940
Foreign exchange gain	(38,413)	-
Finance expense	1,598,042	1,298,775
Finance income	(95,579)	-
Impairment of long-lived assets	-	297,878
Goodwill impairment	-	445,000
Change on fair value of embedded derivative	27,094	15,043
Loss on modification and extinguishment of debt	99,441	-
Loss on disposal of assets	625	-
Lease termination loss and loss on sub-lease	205,750	135,282
Realized loss on sale of marketable securities	2,105,548	2,393,055
Transaction cost of qualifying transaction	1,549,527	-
Unrealized foreign exchange loss	-	19,215
Changes in non-cash working capital:		
Trade and other receivables	40,920	(124,847)
Prepays and deposits	60,019	(155,887)
Inventory	(921,602)	(894,769)
Due to related parties	128,955	(219,276)
Accounts payable and accrued liabilities	63,245	410,526
	(1,414,780)	(6,031,151)
<b>Investing activities:</b>		
Property and equipment	(636,491)	(1,306,321)
Proceeds from sale of marketable securities	910,183	-
Loan receivable	-	(297,382)
Payments towards prior year business combination	(425,000)	(530,635)
Acquisition of lease properties	-	(1,200,000)
Cash acquired from qualifying transaction	1,955,006	-
	1,803,698	(3,334,338)
<b>Financing activities:</b>		
Loan proceeds from CEBA	60,000	-
Loan received from related party	500,000	-
Repayments on loan from related party	(500,000)	-
Payments received on net investment in finance lease	193,670	109,165
Payments on lease obligations	(1,094,509)	(1,479,766)
Interest paid	(187,014)	-
Proceeds from issuance of convertible debentures	1,000,000	4,201,500
Proceeds from issuance of promissory notes	225,000	1,850,000
Repayment of borrowings	(700,000)	-
	(502,853)	4,680,899
Net change in cash and cash equivalents	(113,935)	(4,684,590)
Cash and cash equivalents, beginning	1,418,764	6,103,354
<b>Cash and cash equivalents, ending</b>	<b>\$ 1,304,829</b>	<b>\$ 1,418,764</b>

See Note 22 for supplemental cash flow

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

**KIARO HOLDINGS CORP.**  
**(formerly DC Acquisition Corp.)**

Notes to the Consolidated Financial Statements

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

**1) NATURE OF OPERATIONS**

Kiario Holdings Corp. (formerly DC Acquisition Corp. ("DCA"), the "Company" or "Kiario") is a publicly traded company with the head office and principal address located at 300 - 110 East Cordova Street, Vancouver, British Columbia, Canada V6A 1K9. The Company is traded on the TSX Venture Exchange ("TSX-V") under the symbol "KO".

Kiario Brands Inc. ("KBI") 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 businesses with a view of completing a transaction. Following the amalgamation, both Aura and Elora were dissolved.

On June 9, 2020, KBI entered into an amalgamation agreement ("Amalgamation Agreement") with DC Acquisition Corp. ("DCA"), a TSXV-listed capital pool company to complete a reverse takeover transaction (the "Qualifying Transaction"). On October 13, 2020, Kiario completed the Qualifying Transaction by way of reverse take-over of DCA pursuant to the Amalgamation Agreement in a three-cornered amalgamation of KBI with 1251542 B.C. Ltd., a wholly owned subsidiary of DCA (Note 6).

Immediately prior to effecting the above share exchange, DCA completed a share consolidation of its shares on the basis of one post-consolidation DCA Shares for every 1.7142857143 pre-consolidation DCA Shares in order to establish a one for one exchange ratio of common shares of the Company for DCA Shares.

The transaction was completed on October 13, 2020, resulting in 173,565,679 common shares of Kiario outstanding. The shares of Kiario began trading on October 20, 2020, on the TSX-V. These consolidated financial statements are presented for accounting purposes as a continuation of KBI, reflecting the acquisition of DCA on a reverse acquisition basis.

**2) BASIS OF PRESENTATION AND MEASUREMENT**

**a) Statement of Compliance**

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

These consolidated financial statements were approved by the Board of Director on May 3, 2021.



**KIARO HOLDINGS CORP.**  
**(formerly DC Acquisition Corp.)**

Notes to the Consolidated Financial Statements

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

**2) BASIS OF PRESENTATION AND MEASUREMENT** *(continued)*

**b) Basis of Measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and include all adjustments considered necessary for fair presentation by the Company's management.

**c) Basis of Presentation**

These consolidated financial statements are presented as a continuance of KBI (accounting acquirer), and comparative figures presented in the consolidated financial statements are those of KBI. The thirteen months period from January 1, 2019 to January 31, 2020, is used as the basis for comparison for these consolidated financial statements. The additional one month on a year-to-year comparative basis is the result of a change in KBI's prior fiscal year end from December 31 to January 31.

**d) 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:

<b>Subsidiaries</b>	<b>Ownership</b>
	%
26879241 Ontario Inc.	100
Kiaro Brands Inc.	100
Kiaro Retail BC Ltd.	100
National Cannabis Distribution Inc.	100
2209917 Alberta Ltd.	100

**e) 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 are the Canadian Dollars.

**KIARO HOLDINGS CORP.**  
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Notes to the Consolidated Financial Statements

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

**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.

**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 in order 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:

	<b>Depreciation periods</b>
Furniture and fixture	5 years
Computer equipment	1 - 3 years
Leasehold improvement	Lease term
Software and website	2 - 3 years

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Notes to the Consolidated Financial Statements

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

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

**c) Property and equipment** *(continued)*

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.

**d) Leases**

**Lessee**

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 low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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Notes to the Consolidated Financial Statements

For the Year Ended January 31, 2021 and Thirteen Months Ended January 31, 2020

(Expressed in Canadian Dollars)

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

**d) Leases** *(continued)*

**Lessor**

The Company determines at lease inception whether each lease is a finance lease or an operating lease.

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 underlying asset. If this is the case, then the lease is a 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 a major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

**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 the 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 ("CGUs") or groups of CGUs that are expected to benefit from the synergies of the combination. Each CGU 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 as described below.

**g) Impairment of non-financial assets**

The Company assesses at each date of the consolidated 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 CGU may not be recoverable. If any such indication exists, then the asset's or CGU's recoverable amount is estimated.

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

**g) Impairment of non-financial assets** *(continued)*

Goodwill and indefinite life intangible assets are tested at least 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 the statements of 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 consolidated statements of loss and comprehensive loss during the period when it is determined a reversal is appropriate.

**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 noncontrolling 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 the statements of loss and comprehensive loss.

**i) Share-based payments**

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.

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.

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

**i) Share-based payments** *(continued)*

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 equity reserves.

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

**j) Convertible Debentures**

Convertible debentures are compound financial instruments that can be converted to ordinary shares at the option of the holder. The liability component of convertible debentures is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity conversion option is initially recognised at the difference between the fair value of the convertible debenture as a whole and the fair value of the liability component. When the convertible debentures are not converted to ordinary shares on “fixed for fixed” basis, the equity conversion option is recognized initially as a derivative liability. Any directly attributable transaction costs are allocated in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component is measured at amortized cost using the effective interest method and the derivative liability is measured at FVTPL with changes recognized as gain or loss in the statements of loss and comprehensive loss.

Interest related to the financial liabilities is recognized in the statements of loss and comprehensive loss. Upon conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

**k) 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, warrants, and convertible debt outstanding that may add to the total number of common shares. As the Company incurred losses for the year ended January 31, 2021 and the prior years ended January 31, 2020 and December 31, 2018, the diluted earnings per share equals the basic shares since the effects of options, warrants, and convertible debt would be anti-dilutive.

**l) Income taxes**

Income tax expense consists of current and deferred tax expense. Current and deferred tax expense are recognized in the statements of net loss and comprehensive 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 or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

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

**l) Income taxes** *(continued)*

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 the statements of net loss and comprehensive loss or in equity depending on the item to which the adjustment relates to. 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.

The Company is required to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. The Company will also consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, if the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

**m) 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 reserves. 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.

***Reserves***

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

**n) Revenue recognition**

Revenue recognition is based on a five-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 cannabis and accessories 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 cannabis is 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.

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

**n) Revenue recognition** *(continued)*

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

**o) Financial instruments**

***Recognition and measurement***

On initial recognition, a financial asset is classified as measured at: amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). A financial liability is classified as measured at: amortized cost or FVTPL. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument.

Transaction costs are included in the initial carrying value of financial instruments measured at amortized cost and effectively amortized through profit or loss over the life of the instrument. For financial instruments measured at FVOCI, transaction costs are recognized in OCI as part of a change in fair value at the next remeasurement. For financial instruments measured at FVTPL, transaction costs are expensed as incurred.

Financial instruments are recognized initially on trade date, which is the date on which the Company become a party to the contractual provisions of the instrument. Financial assets and liabilities are offset and the net amount presented in the statement of financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

***Classification of financial assets***

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election has not been made by the Company.

The Company has not classified any financial assets as FVOCI. The Company's cash and cash equivalents, trade and other receivables (exclude GST receivable), loan receivable, and net investment in lease have been classified as measured at amortized cost. The Company's investments in marketable securities have been classified as measured at FVTPL.



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

**o) Financial instruments** *(continued)*

***Classification of financial liabilities***

A financial liability is generally measured at amortized cost, with exceptions that may allow for classification as FVTPL or designation at FVTPL. These exceptions include financial liabilities at fair value through profit or loss, such as derivatives that are liabilities, and financial liabilities that have been designated as measured at FVTPL. The Company, at initial recognition, may irrevocably designate a financial liability as measured at FVTPL when doing so results in more relevant information.

The Company has classified account payables and accrued liabilities (exclude PST payable), due to related parties, lease liability, purchase liability, and long-term liabilities as measured at amortized cost, and embedded derivative liabilities as FVTPL.

***Derecognition***

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 are 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 asset or group of financial assets as measured at amortized cost 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 ECLs. 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.

**p) Government grants**

The Company recognizes certain amount of interest and loan forgiveness related to the Canadian Emergency Business Account (“CEBA”) loan in profit or loss as other income. The interest expense recognized as grant is the difference between the Company’s effective borrowing rate and the CEBA loan interest. The amount of loan forgiveness recognized as grant shall depend on the timing and condition of repayment.

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

**q) Critical accounting estimates and judgements**

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.

***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 judgement 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 judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

When impairment indicators are noted, management estimates the recoverable amount of each asset or CGU based on a value-in-use ("VIU") model, using expected future cash flows, or a fair value less costs of disposal model, using recent sales data or appraisal reports. Under a VIU model, when measuring expected future cash flows, management makes assumptions about growth which relate to future events and circumstances. Actual results could vary from these estimated future cash flows.

***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 judgement 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.

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 judgement. An impairment loss is recognized for the amount by which the CGU's carrying amount exceeds its recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on the assets' value in use. 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.

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

**q) Critical accounting estimates and judgements** *(continued)*

***Fair value of financial instruments***

When the fair values of financial assets and financial liabilities recorded in the consolidated 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 receive from conversion are 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 judgement is required in establishing fair values. Judgements 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.

***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 tax 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.

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, future tax planning strategies, and also assessment on uncertain tax position, if any, is included in Note 20. The tax rules in the numerous jurisdictions in which the Company operates are also taken into consideration.

***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.

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#### **4) NEW AND REVISED STANDARDS**

The following IFRS standards have been recently issued by the IASB. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

##### **a) Amendments to IAS 1: Classification of Liabilities as Current or Non-Current**

The amendments only affect the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In October 2020, the IASB amended the adoption date to - for annual reporting periods beginning on or after 1 January 2023 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

##### **b) Amendments to IAS 37: Onerous Contracts and the cost of Fulfilling a Contract**

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

##### **c) Amendments to IFRS 3: Business Combinations**

The amendments updated IFRS 3 for its *Reference to the Conceptual Framework*, added that for transactions and other events within the scope of IAS 37 or IFRIC 21, the acquirer applies IAS 37 or IFRIC 21 to identify liabilities it has assumed in a business combination, and also the acquirer does not recognize contingent assets acquired in a business combination. The amendment is effective for annual periods beginning on or after January 1, 2022 with early application permitted. The Company is currently not impacted by these amendments.

#### **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%.

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**5) ACQUISITION OF NCD (continued)**

	\$
Fair value consideration	950,518
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	-
<b>Total identifiable net assets at fair value</b>	<b>(46,930)</b>
<b>Goodwill arising on acquisition</b>	<b>903,588</b>

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, 2021, the remaining balance of the consideration payable to the selling shareholder is \$103,230 (January 31, 2020 – \$473,410). There were no material transaction costs relating to this acquisition.

	<b>Purchase liability</b>
	\$
Balance at March 18, 2019	700,518
Monthly payments made	(318,750)
Accretion	91,642
<b>Balance at January 31, 2020</b>	<b>473,410</b>
Monthly payments made	(425,000)
Accretion	54,820
<b>Balance at January 31, 2021</b>	<b>103,230</b>
Current portion of purchase liability	103,230
Long-term portion of purchase liability	-

From the date of acquisition to January 31, 2020, NCD contributed \$1,745,223 of revenue and \$631,403 to net loss before tax from continuing operations of the Company.

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**6) QUALIFYING TRANSACTION**

The Qualifying Transaction has been recorded as an asset acquisition of the net assets of DCA. In connection with the Qualifying Transaction, DCA shareholders received one common share of Kiaro for each common share of DCA. As a result of the Qualifying Transaction Kiaro issued 20,416,663 common shares valued at \$0.18 per share, totaling \$3,675,000 of consideration. Upon completion of the Qualifying Transaction, existing shareholders of KBI and DCA own approximately 88.2% and 11.8% of the combined company respectively, on a basic shares outstanding basis.

The consolidated statements of financial position, consolidated statements of loss and comprehensive income, consolidated statements of changes in shareholder's equity, and consolidated statements of cash flows reflect the following qualifying transaction adjustments:

	\$
Consideration of the DCA common shares (i)	3,675,000
Cash	(1,955,006)
GST receivable	(5,592)
Promissory note receivable (ii)	(235,177)
Total net assets acquired	(2,195,775)
Transaction costs paid	312,848
Excess of purchase price over fair value of assets acquired (expensed)	1,792,073

- (i) The 20,416,663 DCA shares issued were valued at \$0.18 per share, equivalent to the initial listing price of the Company on the go-public event, totaling \$3,675,000 of consideration. All DCA warrants expired July 31, 2020 and the DCA options would expire 90 days from the termination of the DCA option holder in their previous capacity as director of DCA. In addition, new Kiaro options were issued valued at \$0.17 per share, totalling 729,290 options to the DCA option holders within a new agreement to provide professional services from October 13, 2020 to August 2, 2023.
- (ii) Between June and July 2020 and in accordance with the policies of the TSX Venture Exchange, DCA advanced KBI a loan of \$225,000 on commercial terms, with interest rates at 4% and maturing one year from the date of issuance. Following the completion of the Qualifying Transaction, such intercompany balances are eliminated upon consolidation.

Under the acquisition accounting rules, KBI was determined to be the accounting acquiror of DCA. The Qualifying Transaction is assumed to constitute an asset acquisition as DCA did not meet the definition of a business. The assets acquired and liabilities assumed were recorded at their fair market values.

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**7) TRADE AND OTHER RECEIVABLES**

	January 31, 2021	January 31, 2020
	\$	\$
Trade receivables	132,719	29,992
GST receivable	2,451	54,610
Other receivables	6,913	77,858
	142,083	162,460

**8) PREPAIDS AND DEPOSITS**

	January 31, 2021	January 31, 2020
	\$	\$
Prepaid	179,633	195,350
Lease deposits	99,305	183,742
Other deposits	1,821	12,562
	280,759	391,654
Current prepaid expenses	181,454	207,912
Long-term lease deposits	99,305	183,742

**9) INVENTORY**

As at January 31, 2021, the Company had inventory totaling \$1,744,244 (January 31, 2020 – \$841,829), which consists of finished products including recreational cannabis and accessories purchased from third parties for resale. During the year ended January 31, 2021, \$11,957,658 of inventory was recognized as cost of sales (Thirteen months ended January 31, 2020 – \$3,829,871). For the year ended January 31, 2021, inventory was reduced by \$19,188 as result of a write-down to net realizable value (Thirteen months ended January 31, 2020 – \$52,940).

**10) INVESTMENTS IN MARKETABLE SECURITIES**

On September 13, 2019, the Company and High Park Holdings Ltd. (“High Park”), a wholly owned subsidiary of Tilray Inc. (“Tilray”), entered into a Subscription Agreement, pursuant to which, High Park 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 (Thirteen months ended January 31, 2020 – \$nil) and a realized foreign exchange gain of \$38,413 (Thirteen months ended January 31, 2020 – \$nil). The Company had \$nil investment as at January 31, 2021.

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**11) LOAN RECEIVABLE**

On June 19, 2019, the Company entered into a secured convertible debenture agreement with a third party, pursuant to which the Company lent \$300,000 to this party. The loan receivable had a maturity date of December 31, 2019, bore interest at 10% per annum, and was 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. On July 31, 2020, the Company has settled the loan receivable for the amount of \$341,214, which included accrued interest of \$33,534 (January 31, 2020 – \$18,575). For the period ended January 31, 2021, interest revenue of \$14,959 was recognized on the loan (Thirteen months ended January 31, 2020 – \$18,575). The Company settled the loan for \$35,000 to be received in cash and consideration for outstanding accounts payable with Pineapple Express, with the remaining loan balance being assigned to an entity controlled by the CEO of the Company, in exchange for the settlement of a convertible debenture issued to the entity controlled by the CEO of the Company with an equal principal balance of \$300,000 (Note 16(vii)). The Company recognized a loss on the settlement of this loan of \$5,344 and was recorded in loss on modification and extinguishment of debt in the statement of loss and comprehensive loss.

**12) 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>	\$	\$	\$	\$	\$	\$
Balance at December 31, 2018	48,212	96,450	787,035	40,590	-	972,287
Additions	55,469	95,367	1,121,170	62,495	52,763	1,387,264
Disposals	-	-	(36,853)	-	-	(36,853)
Balance at January 31, 2020	103,681	191,817	1,871,352	103,085	52,763	2,322,698
Additions	7,842	79,256	566,415	2,648	16,955	673,116
Disposals	-	-	(36,625)	-	-	(36,625)
Balance at January 31, 2021	111,523	271,073	2,401,142	105,733	69,718	2,959,189
<b>Accumulated depreciation</b>	\$	\$	\$	\$	\$	\$
Balance at December 31, 2018	7,419	19,572	8,004	8,935	-	43,930
Depreciation and amortization	19,021	65,809	374,929	41,281	28,656	529,696
Balance at January 31, 2020	26,440	85,381	382,933	50,216	28,656	573,626
Disposals	-	-	(11,535)	-	-	(11,535)
Depreciation and amortization	21,416	97,337	615,488	34,807	30,420	799,468
Balance at January 31, 2021	47,856	182,718	986,886	85,023	59,076	1,361,559
<b>Net book value</b>	\$	\$	\$	\$	\$	\$
Balance at January 31, 2020	77,241	106,436	1,488,419	52,869	24,107	1,749,072
Balance at January 31, 2021	63,667	88,355	1,414,256	20,710	10,642	1,597,630



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### 13) LEASES

#### *Right-of-use assets*

The following table illustrates the right-of-use asset balances relating to retail spaces, offices, and warehouses:

	\$
<b>Cost</b>	
Balance at January 1, 2019	2,137,489
Acquired on acquisition	3,335,280
Additions	2,141,661
Amendments	(1,211,144)
Depreciation	(1,458,640)
Balance at January 31, 2020	4,944,646
Amendments	(206,128)
Derecognition from sublease	(41,843)
Depreciation	(1,078,853)
Balance at January 31, 2021	3,617,822

#### *Lease liabilities*

The following table illustrates the lease liabilities balances relating to retail spaces, offices, and warehouses:

	\$
<b>Cost</b>	
Balance at January 1, 2019	1,821,235
Acquired on acquisition	147,650
Additions	2,558,037
Payments net of interest	(450,090)
Amendments	(905,732)
Balance at January 31, 2020	3,171,100
Payments net of interest	(654,101)
Amendments	(206,049)
Balance at January 31, 2021	2,310,950
Current portion	723,904
Long-term portion	1,587,046

For the year ended January 31, 2021, the Company recognized an interest expense on lease liabilities in the amount of \$448,775 (Thirteen months ended January 31, 2020 – \$666,038) in the consolidated statements of loss and comprehensive loss.

The Company recognized cash outflow for leases of \$1,094,509 for the year ended January 31, 2021 (Thirteen months ended January 31, 2020 – \$1,479,766) in the consolidated statement of cash flows.

For the year ended January 31, 2021, an amount of \$205,750 (Thirteen months ended January 31, 2020 – \$135,282) 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.

The lease liability is disclosed in Note 24 table for financial liabilities with contractual maturities information.

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**13) LEASES (continued)**

***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 consolidated statements of financial position as follows:

	\$
<b>Cost</b>	
Balance at January 1, 2019	-
Additions	636,683
Interest accretion	63,873
Lease receipts	(109,165)
Balance at January 31, 2020	591,391
Additions	82,756
Amendments	(184,625)
Interest accretion	73,510
Lease receipts	(193,670)
Balance at January 31, 2021	369,362
Current portion	156,915
Long-term portion	212,447

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:

	\$
Less than 1 year	212,274
1 - 2 years	218,948
2 - 3 years	6,662
> 3 years	-
Total undiscounted lease payments receivable	437,884
Less: Interest accretion	(68,522)
Net investment in lease at January 31, 2021	369,362

**14) INTANGIBLE ASSETS AND GOODWILL**

	Goodwill	Intangible assets - license	Total
	\$	\$	\$
Balance at December 31, 2018	-	-	-
Additional (Note 5)	903,588	150,000	1,053,588
Impairment	(445,000)	-	(445,000)
Balance at January 31, 2020 and 2021	458,588	150,000	608,588

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**14) INTANGIBLE ASSETS AND GOODWILL** *(continued)*

The Company's wholesale segment ("NCD") was identified as a Cash Generating Unit ("NCD CGU") for impairment purposes. An impairment test was performed on the NCD CGU. In assessing if an impairment loss was evident, the recoverable amount of the NCD CGU was determined to be equal to its value in use. In estimating the value in use, a five-year cash flow projection was prepared at a discounted rate of 15%. Key assumptions that were used in the cash flow projections include using a revenue growth rate of 10%, terminal value of 2% and gross margin of 9%. As the carrying amount of the NCD CGU was determined to be lower than the recoverable amount, no impairment was recorded as at January 31, 2021 (Thirteen months ended January 31, 2020 – impairment loss of \$445,000 recorded).

An increase/decrease in gross margin rate of 1% would have increased/decreased the amount that the recoverable amount exceeded the carrying amount by \$274,394 and \$252,002, respectively. An increase/decrease in revenue growth rate of 1% would have increased/decreased the amount that the recoverable amount exceeded the carrying amount by \$89,073 and \$64,498, respectively. An increase/decrease in discount rate by 1% would have increased/decreased the amount that the recoverable amount exceeded the carrying amount by \$28,222. In all the scenarios identified no impairment loss would occur.

**15) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	January 31, 2021	January 31, 2020
	\$	\$
Accounts payable	911,563	1,316,024
Accrued liabilities	308,182	122,841
PST Payable	105,676	23,561
	<b>1,325,421</b>	<b>1,462,426</b>

**16) LONG-TERM LIABILITIES**

	January 31, 2021	January 31, 2020
	\$	\$
Promissory notes (i-iii)	-	2,322,660
Convertible debenture (iv-vi)	691,390	4,208,107
Canada Emergency Business Account Loan (viii)	49,129	-
	<b>740,519</b>	<b>6,530,767</b>
Current portion	120,283	694,055
Long-term portion	620,236	5,836,712

- (i) During the period between October 17, 2019 and December 20, 2019, the Company entered into promissory note unit agreements ("Note Units") with three companies related to directors of the Company totaling \$1,850,000. Each Note Unit consists of (i) one secured non-convertible note ("Notes"), bearing 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 is exercisable at any time for a period of 2 years from the date of issuance, giving the holder the right to acquire one common share of the company at an exercise price of \$0.60 each, where 3,052,500 warrants were issued in the Note Units. 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 disposed of the Security.

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**16) LONG-TERM LIABILITIES** *(continued)*

On April 7, 2020, one of the promissory notes with a face value of \$100,000 was settled for \$104,181, including accrued interest and incurred a loss on settlement of \$6,096 was recognized.

On May 31, 2020, the Company settled the remaining portion of the Note Units with three new convertible debentures totaling \$1,750,000 (Note 16(vii)), which has been accounted for as an extinguishment of debt and resulted in a loss on settlement of \$92,418.

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

(iii) Between June and July 2020, and in compliance with the policies of the TSX Venture Exchange, DCA advanced to KBI an unsecured loan of \$225,000 on commercial terms, with interest at 4% and maturing one year from the date of issuance. Upon completion of the Qualifying Transaction, Kiaro acquired the loan receivable from DCA and is eliminated upon consolidation.

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

	<b>Promissory Note Units</b>	<b>Promissory Note</b>	<b>Total</b>
	\$	\$	\$
Balance, December 31, 2018	-	-	-
New notes issued	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
New notes issued (iii)	225,000	-	225,000
Accretion of promissory notes	36,685	-	36,685
Net loss on settlement of debt	98,514	-	98,514
Settlement of promissory notes (i-iii)	(1,982,859)	-	(1,982,859)
Repayment of promissory notes (i-ii)	(100,000)	(600,000)	(700,000)
Balance, January 31, 2021	-	-	-

During the year ended January 31, 2021, the Company made \$169,189 of interest payments on the promissory notes (Thirteen months ended January 31, 2020 – \$nil) to a related party. As at January 31, 2021, interest payable related to the promissory note of \$nil (January 31, 2020 – \$48,348) was included in the accounts payable and accrued liabilities. For the year ended January 31, 2021, \$172,572 has been recorded as interest and accretion expense on the promissory notes and has been included as finance expense in the statement of loss and comprehensive loss.

(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, the Company issued convertible debt in the amount of \$1,000,000. Each convertible debenture matures two years from the closing date and bears interest at the rate of 8% per annum. As part of the Qualifying Transaction, the lenders may convert all, but not less than all, of the principal, and all accrued and unpaid interest 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, provided notice to convert is received two business days prior to the Qualifying Transaction. 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. The Company recognized a derivative liability of \$1,261,387 on inception of the convertible debentures using an effective interest rate of 22% to 24%.

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**16) LONG-TERM LIABILITIES** *(continued)*

Immediately prior to the completion of the Qualifying Transaction, convertible debentures with a principal balance of \$5,215,000, derivative liability of \$1,301,782, and accrued interest of \$517,655 were converted into common shares, pursuant to their terms. As at January 31, 2021, \$35,000 convertible debt remains maturing May 31, 2021.

- (v) On February 1, 2020, the Company entered into an unsecured convertible debenture agreement with a third party in the amount of \$100,000. The convertible debenture bears interest at 8% and matures 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 using an effective interest rate of 22%. As at January 31, 2021, \$100,000 convertible debt remains maturing February 1, 2022.
- (vi) On May 11, 2020, the Company closed a non-brokered private placement of 1,000 units of the Company ("Units") at a price per Unit of \$1,000 for aggregate gross proceeds of \$1,000,000. Each Unit was comprised of one (1) secured convertible debenture of the Company with a principal amount of \$1,000 (a "2020 Debenture"), and five thousand (5,000) common share purchase warrants of the Company ("Warrants"). Each \$1,000 Debenture was automatically converted into 10,000 preferred shares of the Company ("Preferred Shares") at a price per Preferred Share of \$0.10 immediately following the creation of the Preferred Shares at a meeting of the shareholders of the Company held on July 7, 2020 (the "Meeting"). Had the creation of the Preferred Shares not been approved at the Meeting, the 2020 Debentures would have commenced bearing interest at the simple rate of 10% per annum maturing on the two (2) year anniversary of the date of issuance thereof. The indebtedness, liabilities, and obligations of the Company under this 2020 Debenture are direct obligations of the Company secured against all current and after acquired assets of the Company evidenced by a security registration under the Personal Property Security Act (British Columbia). The security registration was removed upon conversion of the debt to equity after the Qualifying Transaction was completed. The liability component was initially recognized at fair value, determined at net present value of future payments of interest and principal, discounted at the market rate for similar non-convertible liabilities at the time of issue (20%). The fair value of the liability component (\$672,869) was deducted from the face value of the instrument with the residual value (\$327,131) being allocated to the share conversion feature (\$228,892) and the warrant component (\$98,239) on a proportionate fair value basis. The residual value was calculated using the Black-Scholes model with a risk-free interest rate of 0.26%, a volatility of 100%, and an expected life of one year, and was initially recorded as shareholders' equity.

As of the date hereof, following the automatic conversion described above, no 2020 Debentures remain outstanding. Immediately prior to the completion of the Transaction (as defined and described below), each Preferred Share was further converted automatically into one (1) common share of the Company. Each Warrant was exercisable to acquire one (1) common share of the Company at a price per common share of \$0.13 following the earlier of: (A) the Company delivering written notice to the holder permitting such exercise; and (B) if the Company did not complete a go-public event by October 31, 2020, October 31, 2020. Warrants were only exercisable if the Company does not complete a go-public event prior to October 31, 2020 and would have been exercisable until the earlier of the three (3) year anniversary of the date of issuance thereof and the two (2) year anniversary of the go-public event, subject to acceleration. As the Company completed the Transaction prior to October 31, 2020, the Warrants were rendered null and void and are no longer issued and outstanding.

- (vii) On May 31, 2020, the Company settled the remaining Note Units (Note 16(i)) with three new unsecured convertible debentures totaling \$1,750,000 to companies related to a director of the Company. The convertible debentures bear interest of 8% and matures 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

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**16) LONG-TERM LIABILITIES** *(continued)*

transaction. The Company recognized a derivative liability of \$435,234 on inception of the convertible debentures using an effective interest rate of 22%. On October 13, 2020, upon completion of the Qualifying Transaction, one of these convertible debentures with a principal balance of \$750,000, derivative liability of \$186,830 and accrued interest of \$22,097 were converted to common shares at a deemed price per common share of \$0.144. In addition, one of the debentures issued for \$300,000 was settled with a loan receivable on July 31, 2020 (Note 11), including accrued interest of \$4,332. A gain of \$4,418 was recorded on the settlement of this debt. As at January 31, 2021, \$700,000 of these debentures remain outstanding.

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

	Convertible debenture	Derivative liability	Total
	\$	\$	\$
Balance, December 31, 2018	243,967	-	243,967
Convertible debt converted to equity	(260,969)	-	(260,969)
Convertible debt issued	3,931,543	1,269,857	5,201,400
Accretion of convertible debentures	293,566	-	293,566
Change in fair value of derivative liability	-	15,143	15,143
Balance, January 31, 2020	4,208,107	1,285,000	5,493,107
Convertible debt issued (v-vii)	2,360,467	459,515	2,819,982
Convertible debt settled (vii)	(229,720)	(74,611)	(304,331)
Convertible debt converted to shares (iv,vi,vii)	(6,208,262)	(1,488,612)	(7,696,874)
Accretion of convertible debentures	560,798	-	560,798
Change in fair value of derivative liability	-	27,094	27,094
Balance, January 31, 2021	691,390	208,386	899,776

As at January 31, 2021, interest payable related to the convertible debentures of \$50,090 (January 31, 2020 – \$227,544) was accrued and included in accounts payable and accrued liabilities. During the year ended January 31, 2021, \$927,107 was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the statement of loss and comprehensive loss.

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 \$27,094 was recognized in the consolidated statements of loss and comprehensive loss.

(viii) On April 29, 2020, the Company entered into an unsecured agreement with a third party for a CEBA loan in the amount of \$40,000, which was subsequently increased to \$60,000 on December 24<sup>th</sup>, 2020. The intention of the loan was to assist businesses with losses incurred during the COVID-19 pandemic. The loan is interest free until December 31, 2022, and 5% interest 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. The effective interest used is 10%. Other income of \$13,505 was recognized as a government grant in the consolidated statement of loss and comprehensive loss, and \$2,634 was recorded as accretion expense during the period ending January 31, 2021. During the year ended January 31, 2021, \$2,634 was recorded as interest expense on the CEBA loan and was included as finance expense in the statement of loss and comprehensive loss.

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## **17) SHARE CAPITAL**

### **Authorized**

Unlimited number of common and preferred shares, without par value.

### **Issued and Outstanding**

As at January 31, 2021, 173,565,679 common shares (January 31, 2020 – 98,048,458) were issued and outstanding.

### **Share Issued**

*During the year ended January 31, 2021:*

On February 1, 2020, the Company cancelled 8,532,423 common shares at a deemed price of \$0.633 per common shares and issued 8,532,432 common shares at a deemed price of \$0.573 to High Park, a wholly owned subsidiary of Tilary Inc.

On February 25, 2020, the Company issued 8,532 common shares at a deemed price of \$0.586 per common share for services rendered to a third party vendor at a value of \$5,000. The value of the shares issued is based off the value of the services.

On February 29, 2020, the Company issued 20,051 common shares at a deemed price of \$0.586 per common share for services rendered to a third party vendor at a value of \$11,750. The value of the shares issued is based off the value of the services.

On May 31, 2020, the Company issued 416,666 common shares at a deemed price of \$0.144 per common share services rendered to a company related to a director at a value of \$60,000. The value of the shares issued is based off the value of the services.

On August 1, 2020, the Company converted 10,000,000 preferred shares to 10,000,000 common shares at a deemed price of \$0.092 per common share (Note 16).

On October 13, 2020, the Company issued 45,155,309 common shares for the conversion of convertible debt of \$5,208,261, embedded derivative liability of \$1,488,612, and accrued interest of \$539,751 (Note 16).

On October 13, 2020, the Company issued 20,416,663 common shares at a deemed price of \$0.180 per common share as consideration for the Qualifying Transaction for proceeds of \$3,675,000 (Note 6).

*During the thirteen months ended January 31, 2020:*

On September 13, 2019, Kiara 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).

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

On August 28, 2019, Kiara issued 100,000 Kiara common share at \$0.13 per share for the fair value of services rendered.

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**17) SHARE CAPITAL** *(continued)*

**Share Issued** *(continued)*

*During the thirteen months ended January 31, 2020 (continued)*

On July 4, 2019, Kiaro issued 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.

On June 21, 2019, Kiaro issued 340,000 common shares at a price of \$0.20 per common share that was previously recorded as share-based payment reserved.

On June 17, 2019, Kiaro issued 3,000,000 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).

**Warrants**

The Company recorded \$222,796 in stock-based compensation for warrants during the year ended January 31, 2021 (Thirteen months ended January 31, 2020 – \$618,910).

**Warrants Issued**

*During the year ended January 31, 2021:*

On May 11, 2020, the Company issued 5,000,000 warrants as a part of a non-brokered private placement with gross proceeds of \$1,000,000. Each Unit was comprised of 1 secured convertible debenture of the Company with a principal amount of a 2020 Debenture and 5,000 common share purchase warrants of the Company Warrants (Note 16(vi)). Each warrant will be exercisable for a period of (i) 3 years from May 11, 2020, or (ii) 2 years following the Qualifying Transaction at a price of \$0.13. The warrants can be accelerated after the Qualifying Transaction and the VWAP of the public security is greater than \$0.26 for a period of at least five consecutive days.

*During the thirteen months ended January 31, 2020:*

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.

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.

On October 17, December 20, and December 24, 2019, the Company granted a total of 3,052,500 warrants to companies affiliated with officers of the Company at an exercise price of \$0.60 per common share for a period of two years. The warrants were issued as part of the promissory notes agreement 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.



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**17) SHARE CAPITAL (continued)**

The Company recorded \$222,796 in stock-based compensation for warrants during the year ended January 31, 2021 (Thirteen months ended January 31, 2020 – \$618,910).

The following table summarizes the movement in warrants for the year ended January 31, 2021, and the thirteen months ended January 31, 2020:

	Warrants Outstanding	Weighted Average Exercise Price
	#	\$
Balance at December 31, 2018	-	-
Options converted to warrants	5,587,500	0.200
Elora warrants converted to Kiaro warrants	567,018	0.200
Granted	5,583,984	0.569
Forfeited	(2,524,304)	0.200
Balance at January 31, 2020	9,214,198	0.424
Cancelled	(5,882,638)	0.171
Granted	5,000,000	0.130
Expired	(792,714)	0.200
Balance at January 31, 2021	7,538,846	0.317

Details of warrants outstanding as at January 31, 2021 is as follows:

Expiry Date	Outstanding	Exercisable	Price
	#	#	\$
November 6, 2020 - July 22, 2029	2,779,862	842,362	0.200
September 13, 2021	1,706,484	1,706,484	0.586
October 17, 2021 - December 24, 2021	3,052,500	3,052,500	0.600
	7,538,846	5,601,346	

The weighted average remaining life for the warrants outstanding is 2.50 years.

**Stock 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 January 31, 2021, the Company recorded stock-based compensation of \$983,467 (Thirteen months ended January 31, 2020 – \$179,264) for options vested.

**Options Issued**

*During the year ended January 31, 2021:*

The Company granted 3,375,000 options to the Company's advisory board members and employees at an exercise price of \$0.20 per options for a period of 10 years with various vesting periods.

In June 2020, in efforts to align all previously issued options with the proposed qualifying transaction with DCA (Note 6), the Company cancelled and replaced all options with new options with an exercise price between \$0.20 and \$0.30. As the result for the replacement of new options, the incremental change to share-based compensation was \$26,196.

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**17) SHARE CAPITAL** *(continued)*

On October 13, 2020, the Company granted 729,290 options to DCA consultants at an exercise price of \$0.17 per options for a period of 2.75 years (Note 6). The options are fully vested at grant date and expires upon end of consulting agreement on August 2, 2023.

*During the thirteen months ended January 31, 2020:*

The Company granted 3,587,500 options to the Company's employees at an exercise price of \$0.586 per options for a period of 10 years with 3 year vesting periods.

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.

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 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 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 following table summarizes the movements in the Company's stock-options:

	Options Outstanding	Weighted Average Exercise Price
	#	\$
Balance at December 31, 2018	1,049,000	1.000
Aura options granted	540,000	1.000
Aura options forfeited	(412,500)	1.000
Aura options, pre-amalgamation	1,176,500	1.000
Aura options converted to Kiaro options	(1,176,500)	1.000
Kiario options exchanged to Aura options	5,882,500	0.200
Kiario options converted to warrants at amalgamation	(5,587,500)	0.200
Kiario options, post amalgamation	295,000	0.200
Granted	3,587,500	0.586
Forfeited	(450,000)	0.586
Balance at January 31, 2020	3,432,500	0.553
Granted	4,104,290	0.195
Cancelled	(3,787,500)	0.550
Replaced	3,837,500	0.213
Forfeited	(1,125,000)	0.267
Balance at January 31, 2021	6,461,790	0.203

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**17) SHARE CAPITAL** *(continued)*

Details of options outstanding as at January 31, 2021 is as follows:

<b>Expiry Date</b>	<b>Weighted Average Remaining Life</b>	<b>Options Outstanding</b>	<b>Options Exercisable</b>	<b>Exercise Price</b>
	#	#	#	\$
August 2, 2023	2.75	729,290	729,290	0.17
August 11, 2027 - July 31, 2030	9.03	5,307,500	1,815,833	0.20
September 25, 2029	8.91	425,000	141,667	0.30
	8.32	6,461,790	2,686,790	

**Fair Value Assumptions for Warrants and Options**

	<b>For year ended January 31, 2021</b>	<b>For thirteen month ended January 31, 2020</b>
Expected lives in years	10	10
Volatility	100%	100%
Risk-free interest rate range	0.53% - 0.55%	0.53%
Share price range	\$0.090 - 0.180	\$0.180
Exercise price range	\$0.170 - 0.200	\$0.586
Dividend yield	\$nil	\$nil

**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, is shown in the following table:

	<b>Year ended January 31, 2021</b>	<b>Thirteen months ended January 31, 2020</b>
	\$	\$
Salaries and benefits	571,118	608,925
Consulting fee	120,000	49,274
Share-based compensation	564,796	115,524
<b>Total key management compensation</b>	<b>1,255,914</b>	<b>773,723</b>

During the thirteen months 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.

During the thirteen months 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.

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**18) RELATED PARTY TRANSACTIONS** *(continued)*

As at January 31, 2020, 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, with interest owing on the promissory notes of \$63,914. Further, the promissory notes had warrants attached that were exercisable immediately with a fair value of \$142,907. The balances are secured against the investment in marketable securities. In conjunction with the promissory notes, the Company issued 3,052,500 warrants, and amount of \$142,907 recorded as equity component of the promissory note.

As at January 31, 2020, 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, with interest owing on the convertible debenture of \$51,163.

On February 14, 2020, the Company 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 January 31, 2021, the loan includes accrued interest of \$4,571 has been fully repaid.

On May 31, 2020, Kiaro issued 416,666 common shares at a price of \$0.144 per common share for services rendered to a Company owned by the CFO of the Company which are recorded as consulting expenses.

On May 31, 2020, the Company settled promissory notes issued to companies related to a director of the Company in the amount of \$1,750,000 by converting the notes to convertible debentures (Note 16 (vii)). One of the debentures issued for \$300,000 was settled with a loan receivable on July 31, 2020.

On October 13, 2020, upon completion of the Qualifying Transaction, \$750,000 plus accrued interest of the remaining \$1,450,000 convertible debentures converted to common shares.

On October 18, 2020, the Company made interest payments of \$169,189 on the promissory notes to a related party.

As at January 31, 2021, the Company has payables to related parties of \$147,817 (January 31, 2020 – \$18,861).

**19) REVENUE**

Major components of revenue are as follows:

	<b>January 31, 2021</b>	<b>January 31, 2020</b>
	\$	\$
Recreational Cannabis	16,665,281	5,026,848
Accessories and Other	406,585	144,988
	<b>17,071,866</b>	<b>5,171,836</b>

The Company does not have any significant exposure to any individual customer as at January 31, 2021 and January 31, 2020.

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**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, 2021 and 2020:

	January 31, 2021	From January 1, 2019 to January 31, 2020
	\$	\$
Loss before income taxes	(9,337,037)	(12,503,250)
Statutory tax rate	27.00%	27.00%
Expected income tax (recovery)	(2,521,000)	(3,375,878)
Non-deductible expense	1,372,774	824,656
Change in estimates	44,583	(878,009)
Tax effect of loan conversion	116,066	-
Change in deferred tax asset not recognized	987,577	3,429,231
Total income tax expense (recovery)	-	-

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, 2021 and January 31, 2020 are comprised of the following:

	January 31, 2021	January 31, 2020
	\$	\$
Non capital loss carryforwards	166,462	598,249
PPE including ROU asset	(44,975)	(348,075)
Intangible asset	(40,500)	(40,500)
Promissory note	-	(34,382)
Lease liability	19,557	-
Net investment in lease	(99,728)	(159,675)
Purchase liability	(816)	(15,617)
	-	-

The unrecognized deductible temporary differences are as follows:

	January 31, 2021	January 31, 2020
	\$	\$
Non capital loss carryforwards	11,636,154	7,896,123
Lease liability	2,239,085	3,171,100
Convertible loan	64,776	215,879
Deposit on ROU asset	5,000	5,000
Marketable security	-	2,412,270
CEBA loan	9,129	-
Financing costs	29,100	38,800
Capital losses	4,523,860	35,638
Unrecognized deductible temporary differences	18,507,104	13,774,810

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**20) INCOME TAXES** *(continued)*

As at January 31, 2021, the Company has not recognized a deferred tax asset in respect of non-capital loss carry-forwards of approximately \$11,636,154 (January 31, 2020 - \$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
	\$
2041	2,203,158
2040	2,311,288
2039	4,410,170
2038	2,711,538
	<u>11,636,154</u>

**21) SEGMENTED INFORMATION**

Throughout the year ended January 31, 2021, and the thirteen months ended January 31, 2020, the Company operated in two reportable segments. These segments targeted different customers, and are managed separately because they require different personnel, sales, and marketing strategies.

The following describes the operations of each reportable segment:

- (i) Wholesale Cannabis Business - the Company owns and operates wholesale cannabis business through its wholly owned subsidiary NCD in the Province of Saskatchewan. NCD purchases finished goods from licensed producers and sells to retail cannabis operators in the province.
- (ii) Retail Cannabis Stores – The Company operates retail locations to sell and distribute cannabis and cannabis related products to individual consumers.

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.

	Wholesale cannabis business	Retail cannabis stores	Corporate	Eliminations and adjustments	Total
<b>Year ended January 31, 2021</b>	\$	\$	\$	\$	\$
Revenue	5,026,003	12,045,863	-	-	17,071,866
Intercompany revenue	1,542,629	-	-	(1,542,629)	-
Total revenue	6,568,632	12,045,863	-	(1,542,629)	17,071,866
Cost of sales	6,036,319	7,460,228	-	(1,538,889)	11,957,658
Gross profit (loss)	532,313	4,585,635	-	(3,740)	5,114,208
Net profit (loss)	197,603	647,647	(10,178,547)	(3,740)	(9,337,037)
Total assets	2,007,247	4,842,232	2,819,578	(3,740)	9,665,317
Total liabilities	704,460	1,525,046	2,606,817	-	4,836,323

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**21) SEGMENTED INFORMATION** *(continued)*

Thirteen months ended January 31, 2020	Wholesale cannabis business	Retail cannabis stores	Corporate	Eliminations and adjustments	Total
	\$	\$	\$	\$	\$
Revenue	1,745,223	3,426,613	-	-	5,171,836
Intercompany revenue	591,618	-	-	(591,618)	-
Total revenue	2,336,841	3,426,613	-	(591,618)	5,171,836
Cost of sales	2,192,014	2,229,475	-	(591,618)	3,829,871
Gross profit	144,827	1,197,138	-	-	1,341,965
Net loss	(631,403)	(2,232,994)	(9,638,853)	-	(12,503,250)
Total assets	2,050,214	5,637,785	6,304,305	-	13,992,304
Total liabilities	565,452	3,031,204	9,344,908	-	12,941,564

**22) SUPPLEMENTAL CASH FLOW INFORMATION**

Additional supplementary cash flow information is as follows:

	Year ended January 31, 2021	Thirteen months ended January 31, 2020
	\$	\$
Interest paid	187,014	-
Non-cash settlement of loan receivable	341,214	-
Non-cash settlement of loan receivable with accounts payable	14,714	-
Non-cash settlement of promissory note	235,177	-
Non-cash settlement of convertible debenture with loan receivable	300,000	-
Non-cash settlement of convertible debentures on common shares	5,208,261	-

**23) COMMITMENTS AND CONTINGENCIES**

In October 2020 and January 2021, the Company entered into insurance contracts with a term of 12 months. As at January 31, 2021, the minimum annual payments were estimated to be as follows:

	\$
Less than 1 year	160,802
1 - 2 years	-
2 - 3 years	-
> 3 years	-
Total commitments and contingencies	160,802

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 the consolidated financial statements.

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. No estimate, at the date of the financial statements, could be made relating to any potential financial impact.

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**24) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

	January 31 , 2021	January 31, 2020
Financial assets	\$	\$
FVTPL		
Investments in marketable securities	-	2,986,518
Amortized cost		
Cash and cash equivalents	1,304,829	1,418,764
Trade and other receivables (exclude GST receivable)	139,632	107,850
Loan receivable	-	297,382
Net investment in finance lease	369,362	591,391
<b>Total financial assets</b>	<b>1,813,823</b>	<b>5,401,905</b>
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	208,386	1,285,000
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (exclude PST payable)	1,219,745	1,438,865
Due to related parties	147,817	18,861
Purchase liabilities	103,230	473,410
Lease liabilities	2,310,950	3,171,100
Long-term liabilities	740,519	6,530,767
<b>Total financial liabilities</b>	<b>4,730,647</b>	<b>12,918,003</b>

***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 they relate to financial instruments is reflected below:

***Market Risk***

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

a) Currency risk

The Company does not operate outside of Canada and does not transact in foreign currency; therefore, the Company is not exposed to any 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.



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

**Market Risk** *(continued)*

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 and until date of sale, the Company's investments in the marketable securities were 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 January 31, 2021, the Company had \$1,304,829 in cash and cash equivalents (January 31, 2020 – \$1,418,764). The Company is obligated to pay financial liabilities with total carrying amounts to \$2,420,655 in the next 12 months (January 31, 2020 – \$3,229,501).

As at January 31, 2021, the Company's financial liabilities have contractual maturities as summarized below:

	Due within Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities (excluding PST payable)	1,169,655	-	-	-	-	1,169,655
Due to related parties	147,817	-	-	-	-	147,817
Lease liability	1,071,515	1,071,956	613,765	167,146	15,000	2,939,382
Purchase Liability	106,250	-	-	-	-	106,250
Long-term liabilities	158,023	812,000	3,000	3,000	63,000	1,039,023
<b>Total</b>	<b>2,653,260</b>	<b>1,883,956</b>	<b>616,765</b>	<b>170,146</b>	<b>78,000</b>	<b>5,402,127</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.

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

**Credit Risk** *(continued)*

The following table summarizes the Company's aging of trade and other receivables (excluding GST receivable) and expected credit losses as at January 31, 2021:

	Trade and other receivables (excluding GST receivables)	Expected credit losses
	\$	\$
0 - 30 days	139,632	-
31 - 61 days	-	-
61 - 90 days	-	-
> 90 days	-	-
<b>Total</b>	<b>139,632</b>	<b>-</b>

**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.

	<b>January 31, 2021</b>			
<b>Fair value through profit or loss</b>	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Embedded derivative liability	-	-	208,386	208,386
	-	-	208,386	208,386

The Company estimates the fair value of embedded derivative liability at each reporting date using discounted cash flow model. The significant unobservable input used in the model was the interest rate of 0.14% (2020 – 1.47%).

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 period 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 fiscal year end as the interest rates used to discount the host contracts approximate market rates.

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**25) SUBSEQUENT EVENTS**

On March 11, 2021, the Company completed a private placement of units with Canaccord Genuity Corp. on a bought deal basis for 18,750,000 units of the Company at a price of \$0.16 per unit, for aggregate gross proceeds of \$3,000,000. Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.23 before March 11, 2024. The warrants are subject the right of the Company to accelerate the expiry date of the warrants when certain conditions are met.

In connection with the private placement, Canaccord Genuity Corp. received a cash commission in the aggregate amount of \$210,000, which is equal to 7.0% of the gross proceeds raised and 1,312,500 non-transferable broker warrants, which is equal to 7.0% of the number of units sold. Each broker warrant is exercisable into one unit of the Company consisting of one common share of the Company and one half of one warrant until March 11, 2024, subject to the acceleration right, at a price of \$0.16 per broker warrant. Each broker warrant attached with the private placement is exercisable on the same terms as the warrants attached to the units issued in the private placement.

On March 15, 2021, the Company completed an Asset Purchase Agreement to acquire the assets of Grasshopper Cannabis Co. from a private individual of the City of Kelowna. The assets are located in the City of Kelowna and the Company will operate the assets as its eighth retail cannabis location. The agreed upon purchase price of the transaction is \$695,000 and will be allocated to the assets on a pro-rated basis.