KIARO HOLDINGS CORP.

(FORMERLY DC ACQUISITION CORP.)

Consolidated Financial Statements

For the years ended January 31, 2022 and 2021

(Expressed in Canadian Dollars, unless otherwise stated)

Independent Auditor's Report

MNP

To the Shareholders of Kiaro Holdings Corp:

Opinion

We have audited the consolidated financial statements of Kiaro Holdings Corp and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2022 and January 31, 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 31, 2022 and January 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss and negative operating cash flow during the year ended January 31, 2022 and, as of that date, the Company had an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other 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. 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.

MNP LLP

Mississauga, Ontario | Chartered Professional Accountants

May 25, 2022 | Licensed Public Accountants

MNP

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)
Consolidated Statements of Financial Position
As at January 31, 2022 and January 31, 2021
(Expressed in Canadian Dollars)

	Notes	January 31, 2022	January 31, 2021
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		2,351,758	1,304,829
Trade and other receivables	8	297,799	142,083
Prepaids and deposits	9	375,334	181,454
Inventory	10	2,771,763	1,744,244
Net investment in finance lease	12	200,924	156,915
		5,997,578	3,529,525
Non-current assets			
Lease deposits	9	170,333	99,305
Property and equipment	11	4,615,733	1,597,630
Right-of-use assets	12	7,653,558	3,617,822
Net investment in finance lease	12	6,613	212,447
Intangible assets and goodwill	14	2,250,420	608,588
		14,696,657	6,135,792
TOTAL ASSETS		**20,694,235**	**9,665,317**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		2,954,235	1,325,421
Due to related parties	17	50,000	147,817
Current portion of lease liabilities	12	1,007,160	723,904
Current portion of purchase liability		-	103,230
Current portion of long-term liabilities	15	858,281	120,283
		4,869,676	2,420,655
Non-current liabilities			
Long-term portion of lease liabilities	12	5,092,320	1,587,046
Deferred tax liability	6,19	230,303	-
Embedded derivative liabilities	15	199,298	208,386
Long-term liabilities	15	2,619,335	620,236
		8,141,256	2,415,668
TOTAL LIABILITIES		**13,010,932**	**4,836,323**
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	16	36,336,242	26,386,873
Reserves	16	4,997,926	2,901,540
Accumulated deficit		(33,650,865)	(24,459,419)
TOTAL EQUITY		7,683,303	4,828,994
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**20,694,235**	**9,665,317**

Going Concern (Note 1)
Commitments and Contingencies (Note 21)

(The accompanying notes are an integral part of these audited 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
Years ended January 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Notes	Year Ended January 31, 2022	2021
		$	$
Revenue			
Revenue	18	26,902,623	17,071,866
Cost of sales	10	19,205,170	11,957,658
Gross profit		7,697,453	5,114,208
Operating expenses			
Consulting and professional fees	16,17	1,097,836	1,009,706
Depreciation and amortization	11,12	2,383,683	1,866,786
General and administration expenses		1,730,940	829,351
Marketing, meals and entertainment		458,226	242,376
Salaries and employee benefits	18	5,914,994	3,739,749
Share-based compensation	16,17	643,775	1,135,961
Inventory write-down	10	-	19,188
		12,229,454	8,843,117
Other (expenses) income			
Realized loss on sale of marketable securities	13	-	(2,105,548)
Transaction cost of qualifying transaction	5	-	(1,792,073)
Impairment of goodwill and intangible assets	14	(4,084,051)	-
Finance expense	12,15	(924,413)	(1,598,042)
Transaction cost of business combinations	6,7	(629,633)	-
Realized foreign exchange gain/(loss)		(3,017)	38,413
Other income		164,335	182,032
Gain/(loss) on modification and termination on leases	12	231,747	(205,750)
Gain/(loss) on modification and extinguishment of debt		44,496	(99,441)
Change in fair value of derivative liabilities	15	344	(27,094)
Loss on disposal of assets		-	(625)
		(5,200,192)	(5,608,128)
Loss before income tax		(9,732,193)	(9,337,037)
Deferred income tax recovery	19	540,747	-
Net loss and comprehensive loss		**(9,191,446)**	**(9,337,037)**
Loss per share, basic and diluted		**(0.04)**	**(0.08)**
Weighted average common shares outstanding - basic and diluted		217,635,997	112,942,009

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)
Consolidated Statements of Changes in Shareholders' Equity
Years ended January 31, 2022 and 2021
(Expressed in Canadian Dollars)

		Share Capital						
	Notes	Common Shares	Amount	Preferred Shares	Amount	Reserve	Deficit	Total Equity
		#	$	#	$	$	$	$
Balance on January 31, 2020		98,048,458	14,987,041	-	-	1,186,081	(15,122,382)	**1,050,740**
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)**
Convertible debentures converted to preferred shares	16	-	-	10,000,000	922,415	98,239	-	**1,020,654**
Preferred shares converted to common shares	17	10,000,000	1,020,654	(10,000,000)	(922,415)	(98,239)	-	**-**
Convertible debentures converted to common shares	17	45,155,309	7,236,624	-	-	-	-	**7,236,624**
Shares issued as consideration for services	17	445,249	76,750	-	-	-	-	**76,750**
Shares and options as part of qualifying transaction	5,17	20,416,663	3,675,000	-	-	70,302	-	**3,745,302**
Share-based compensation	18	-	-	-	-	1,135,961	-	**1,135,961**
Net loss and comprehensive loss for the year		-	-	-	-	-	(9,337,037)	**(9,337,037)**
Balance on January 31, 2021		**173,565,679**	**26,386,873**	**-**	**-**	**2,901,540**	**(24,459,419)**	**4,828,994**
Balance on January 31, 2021		173,565,679	26,386,873	-	-	2,901,540	(24,459,419)	**4,828,994**
Shares and warrants issued in private placement, net of costs	17	18,750,000	2,174,918	-	-	455,369	-	**2,630,287**
Shares issued for the acquisition of 8651159 Canada Inc.	6,17	6,296,296	818,518	-	-	-	-	**818,518**
Shares and warrants issued for the acquisition of 2734524 Ontario Inc.	7,17	68,000,000	6,800,000	-	-	310,572	-	**7,110,572**
Shares issued as consideration for services	17	215,238	22,600	-	-	-	-	**22,600**
Shares issued as consideration for bonuses	17,18	1,333,333	133,333	-	-	-	-	**133,333**
Warrants issued in convertible debentures	17	-	-	-	-	233,623	-	**233,623**
Conversion component in convertible debentures	17	-	-	-	-	453,047	-	**453,047**
Share-based compensation	18	-	-	-	-	643,775	-	**643,775**
Net loss and comprehensive loss for the year		-	-	-	-	-	(9,191,446)	**(9,191,446)**
Balance on January 31, 2022		**268,160,546**	**36,336,242**	**-**	**-**	**4,997,926**	**(33,650,865)**	**7,683,303**

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)
Consolidated Statements of Cash Flows
Years ended January 31, 2022 and 2021
(Expressed in Canadian Dollars)

	Year ended January 31, 2022	Year ended January 31, 2021
	$	$
Cash provided by (used in):		
Operating activities:		
Net loss	**(9,191,446)**	**(9,337,037)**
Non-cash items:		
Depreciation and amortization	2,383,683	1,866,786
Share-based compensation	643,775	1,135,961
Shares issued for services	22,600	76,750
Shares issued for bouses	133,333	-
Inventory write-down	-	19,188
Foreign exchange (gain)/loss	-	(38,413)
Finance expense	867,022	1,598,042
Other income	(50,449)	(95,579)
Change on fair value of embedded derivative	(344)	27,094
Loss on disposal of assets	-	625
(Gain)/loss on modification and extinguishment of debt	(44,496)	99,441
(Gain)/loss on modification and termination on leases and sub-leases	(231,747)	205,750
Realized loss on sale of marketable securities	-	2,105,548
Transaction cost of qualifying transaction	-	1,549,527
Impairment of goodwill and intangible assets	4,084,051	-
Deferred tax recovery	(540,747)	-
Changes in non-cash working capital:		
Trade and other receivables	(118,300)	40,920
Prepaids and deposits	(166,913)	60,019
Inventory	(220,062)	(921,602)
Due to related parties	(62,067)	128,955
Accounts payable and accrued liabilities	1,376,404	63,245
	(1,115,703)	(1,414,780)
Investing activities:		
Property and equipment	(1,031,431)	(636,491)
Proceeds from sale of marketable securities	-	910,183
Business combination net of cash acquired	(959,929)	(425,000)
Acquisition of license	(695,000)	-
Cash acquired from qualifying transaction	-	1,955,006
	(2,686,360)	1,803,698
Financing activities:		
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	212,274	193,670
Payments on lease obligations	(1,309,101)	(1,094,509)
Interest paid	(57,391)	(187,014)
Repayment of loans	(35,000)	(700,000)
Issuance of common shares, net of transaction costs	2,630,287	-
Proceeds from issuance of convertible debentures, net of transaction costs	3,407,923	1,000,000
Proceeds from issuance of promissory notes	-	225,000
	4,848,992	(502,853)
Net change in cash and cash equivalents	1,046,929	(113,935)
Cash and cash equivalents, beginning	1,304,829	1,418,764
Cash and cash equivalents, ending	**2,351,758**	**1,304,829**

Supplemental cash flow (Note 22)

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

1) NATURE OF OPERATIONS AND GOING CONCERN

Kiaro Holdings Corp. (formerly DC Acquisition Corp. ("DCA"), the "Company" or "Kiaro") 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".

Kiaro 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 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 October 13, 2020, the Company completed a reverse takeover transaction (the "Qualifying Transaction"). In connection with the Qualifying Transaction: (a) 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 to establish a one for one exchange ratio of common shares of the Company for DCA Shares; (b) changed its name to "Kiaro Holding Corp." from DCA (a Capital Pool Company); and (c) continued the Company under the federal jurisdiction of Canada under the Canada Business Corporations Act. Results of the Qualifying Transaction are described in Note 5.

The Company has seventeen operating licensed retail cannabis locations throughout British Columbia, Saskatchewan, and Ontario (Note 6 & 7); an eCommerce platform offering consumption accessories in Canada, the USA, and Australia (Note 6); and a wholly owned subsidiary, National Cannabis Distribution Inc. ("NCD"), which wholesales cannabis products to other licensed retailers in Saskatchewan.

These consolidated financial statements are presented for accounting purposes as a continuation of KBI, reflecting the acquisition of DCA on a reverse acquisition basis.

Going Concern Assumption

These consolidated financial statements for the year ended January 31, 2022 have been prepared on the going concern basis, which assumes that the Company will continue to operate and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

As of January 31, 2022, the Company has an accumulated deficit of $33,650,865 (January 31, 2021 2021 – $24,459,419) since inception. For the year ended January 31, 2022, the Company also incurred a negative cash flow from operations of $1,115,703 (January 31, 2021 – $1,414,780) and a net loss of $9,191,446 (January 31, 2021 – $9,337,037). The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due is uncertain. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

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 25, 2022.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for stock options, warrants and 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) Consolidation

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

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

Subsidiaries	Ownership
	%
2687921 Ontario Inc.	100
2734524 Ontario Inc.	100
Kiaro Australia Pty Ltd.	100
Kiaro Brands Inc.	100
Kiaro Digital Ltd. (formerly Kiaro Retail BC Ltd.)	100
Kiaro Retail Inc.	100
National Cannabis Distribution Inc.	100
8651159 Canada Inc. (formerly Sculthorp SEO Inc.)	100
2209917 Alberta Ltd.	100

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

d) Functional and Presentation Currency

The Canadian dollar is the presentation currency of the Company. The functional currencies of the Company and its subsidiaries are as follows:

Subsidiaries	Functional Currency
2687921 Ontario Inc.	Canadian dollar
2734524 Ontario Inc.	Canadian dollar
Kiaro Australia Pty Ltd.	Australian dollar
Kiaro Brands Inc.	Canadian dollar
Kiaro Digital Ltd. (formerly Kiaro Retail BC Ltd.)	Canadian dollar
Kiaro Retail Inc.	Canadian dollar
National Cannabis Distribution Inc.	Canadian dollar
8651159 Canada Inc. (formerly Sculthorp SEO Inc.)	Canadian dollar
2209917 Alberta Ltd.	Canadian dollar

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of loss and comprehensive loss.

Assets and liabilities of subsidiaries having a currency other than the Canadian dollar are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the periods, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Any resulting foreign currency translation adjustments are recognized in other comprehensive loss.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

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

b) Inventory

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

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 recorded to recognize the usage or wear and tear of property and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Furniture and fixture	5 years
Computer equipment	1 - 3 years
Leasehold improvement	Shorter of useful life and lease term
Software and website	2 - 3 years

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

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

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.

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

d) Leases *(continued)*

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 fixed payments on 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.

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 and retail cannabis licenses which are carried at cost less accumulated impairment losses.

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

e) Intangible assets *(continued)*

The estimated useful lives of the Company's intangible assets are as follows:

Intangible assets	Method	Useful life
Wholesale License	-	Indefinite life
Retail Licenses	Straight-line	Shorter of useful life and estimated lease term of associated locations
Retail Brand	Straight-line	3 years
eCommerce Brand/Domain	-	Indefinite life

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. Goodwill is not subject to amortization. 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.

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.

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, CGU or group of CGUs 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 or group of CGUs and reflect their respective risk profiles as assessed by management.

An impairment loss is recognized if the carrying amount of an asset, CGU or group of CGUs 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 to other assets in the CGU pro rata on the basis of their carrying amount limited to the higher of fair value less costs of disposal, value in use, or zero for the individual assets.

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

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

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 is recognized in the statements of loss and comprehensive loss as a gain on a bargain purchase.

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 the fair value is estimated at the date of issue using the fair value of the goods or services first, if determinable, then by the Black-Scholes option pricing model. 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 of the equity instrument at the date on which they are granted, incorporating the Black-Scholes option pricing model.

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

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

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

j) Convertible Debentures

Convertible debentures are compound financial instruments that can be converted to common 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. When the convertible debentures are not convertible to common shares on "fixed for fixed" basis, the conversion option is recognized initially as a derivative liability. 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. 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 fair value through profit or loss ("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 years ended January 31, 2022 and 2021, 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 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.

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 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.

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

l) Income taxes *(continued)*

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. Income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

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 conversion, 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.

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.

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

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 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.

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), refundable lease deposits, and net investment in lease have been classified as measured at amortized cost.

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. 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.

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

o) Financial instruments *(continued)*

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) 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, intangible assets, and impairment

Depreciation of property and equipment and amortization of intangible assets are 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. VIU is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or group of CGUs. Actual results could vary from these estimated future cash flows.

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

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

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 it recoverable amount. The recoverable amounts of the CGUs' assets have been determined based on the assets' VIU. There is a material degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU, given the necessity of making key economic assumptions about the future. The key assumptions used in the calculation of the recoverable amount relate to future cash flows and growth projections, future weighted average cost of capital and the terminal growth rate. These key assumptions are based on historical data from internal sources as well as industry and market trends.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the 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 rate of forfeiture, 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.

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

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

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 19. 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.

Going Concern

Management has applied judgements in the assessment of the Company's ability to continue as a going concern when preparing these consolidated financial statements. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The assessment of the Company's ability to execute its strategy and finance the operations through achieving positive cash flow from operations or by obtaining additional funding through debt or equity financing involves judgments. Management monitors future cash requirements to assess the Company's ability to realize assets and discharge its liabilities in the normal course of operations.

4) NEW AND REVISED STANDARDS

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

The amendment clarifies the requirements relating to determining if a liability should be presented as current or non-current in the statement of financial position. Under the new requirement, the assessment of whether a liability is presented as current or non-current is based on the contractual arrangements in place as at the reporting date and does not impact the amount or timing of recognition. The amendment applies retrospectively for annual reporting periods beginning on or after January 1, 2023. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

Definition of Accounting Estimates (Amendments to IAS 8)

In February 2021, the IASB issued Definition of Accounting Estimates, which amends IAS 8. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently assessing the potential impact of these amendments.

4) NEW AND REVISED STANDARDS *(continued)*

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

In February 2021, the IASB issued Disclosure of Accounting Policies, which amends IAS 1 and IFRS Practice Statement 2. The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed. The amendment to IFRS Practice Statement 2 adds guidance and examples to the materiality practice statement, which explains how to apply the materiality process to identify material accounting policy information. The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier adoption permitted and are to be applied prospectively. The Company is currently assessing the potential impact of these amendments.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendment narrowed the scope of certain recognition exemptions so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognizes deferred tax for all temporary differences related to leases and decommissioning obligations and recognizes the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date. The amendment will be effective for the annual period January 1, 2023 and the Company has chosen not to early adopt the amendment. The Company is currently evaluating the potential impact of this amendment on the Company's consolidated financial statements.

5) QUALIFYING TRANSACTION

In the year ended January 31, 2021, the Qualifying Transaction was 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 owned 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 shareholders' 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

5) QUALIFYING TRANSACTION *(continued)*

(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.

6) ACQUISITION OF 8651159 CANADA INC.

On July 12, 2021, the Company acquired 100% ownership in share of 8651159 Canada Inc. (formerly Sculthorp SEO Inc. “Cozy”), a private company based in Toronto, Ontario, operating one cannabis retail store in Toronto and three eCommerce business platforms in Canada, the US, and Australia to diversify the Company’s revenue stream.

At closing of the acquisition, the purchase price of $1,361,123 was paid by the Company as follows:

- $818,518 paid by issuance of 6,296,296 common shares of the Company at $0.130 per share which is the trading price at acquisition date;
- $500,000 paid by cash; and
- $42,605 paid in cash for working capital adjustment.

The acquisition was accounted for in accordance with IFRS 3 Business Combinations as a business combination, with the assets and liabilities acquired estimated at their fair value at the acquisition date. The excess of consideration over the fair value of the net assets acquired has been recorded as an intangible assets and goodwill.

Based on Management’s assessment of the fair value of the net assets acquired in the Cozy transaction, the total identifiable net assets was $931,609, resulting in goodwill on acquisition of $429,514 (Note 14).

The transaction costs for the acquisition recorded was $122,447 in the consolidated statements of loss and comprehensive loss.

The acquired business contributed revenues of $1.55 million and net loss of $0.08 million to the group for the period from July 12, 2021 to January 31, 2022. If the transaction had closed on February 1, 2021, the Company estimates revenue would have increased by approximately $2.55 million and the impact on profit/loss from operations would have not been material for the fiscal year ended January 31, 2022.

6) ACQUISITION OF 8651159 CANADA INC. *(continued)*

	$
Consideration of the acquisition in shares	818,518
Consideration of the acquisition in cash	500,000
Working capital adjustment	42,605
Total consideration issued	1,361,123
Cash	(35,555)
Inventory	(264,944)
Property and equipment	(3,234)
Prepaid	(3,463)
Right-of-use assets	(142,682)
Intangible assets - eCommerce brand/domain	(842,000)
Intangible assets - Retail license	(17,000)
Intangible assets - Retail brand	(23,000)
Lease liability	142,682
Accrued liability	23,858
Deferred income tax liability	233,729
Total identifiable net assets at fair value	(931,609)
Goodwill	429,514

In connection with the acquisition, the Company acquired a lease of the retail location in Toronto. The Company has measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use asset was measured at an amount equal to the lease liability and will subsequently be amortized over the remaining lease period (Note 12).

7) ACQUISITION OF 2734524 ONTARIO INC.

On September 24, 2021, the Company acquired 100% ownership in share of 2734524 Ontario Inc. (“Hemisphere Cannabis” or “Hemisphere”), from Aegis Brand Inc. (“Aegis”), which included six operating cannabis retail stores in Ontario and two additional retail leases to further the Company's expansion plan within Canada.

At closing of the acquisition, the purchase price of $7,590,594 was paid by the Company as follows:

- $6,130,000 paid by issuance of 61,300,000 common shares of the Company at $0.10 per share, which is the trading price at acquisition date;
- $310,572 paid by issuance of 6,700,000 warrants where one warrant is exercised for one common share at an exercisable price of $0.16 per common share (Note 16);
- $91,034 promissory note (Note 15 (a));
- $670,000 paid by issuance of 6,700,000 common shares at $0.10 per share, which is the trading price at acquisition date, for the achievement of certain commercial milestones within the first year following closing of the acquisition which has been met (Note 16); and
- $388,988 paid in cash for working capital adjustment.

The acquisition was accounted for in accordance with IFRS 3 Business Combinations as a business combination, with the assets and liabilities acquired estimated at their fair value at the acquisition date. The excess of consideration over the fair value of the net assets acquired has been recorded as an intangible assets and goodwill.

7) ACQUISITION OF 2734524 ONTARIO INC. *(continued)*

Based on Management's assessment of the fair value of the net assets acquired in the Hemisphere transaction, the total identifiable net assets was $6,882,720, resulting in goodwill on acquisition of $707,874 (Note 14). The transaction costs for the acquisition recorded $507,186 in the consolidated statements of loss and comprehensive loss.

The acquired business contributed revenues of $2.64 million and net loss of $0.96 million to the group for the period from September 24, 2021 to January 31, 2022. If the transaction had closed on February 1, 2021, the Company estimates revenue would have increased by approximately $6.29 million and the impact on profit/loss from operations would have not been material for the fiscal year ended January 31, 2022.

	$
Consideration of the acquisition in shares	6,130,000
Consideration of the acquisition in warrants	310,572
Consideration of milestone event in shares	670,000
Promissory note	91,034
Working capital adjustment	388,988
Total consideration issued	7,590,594
Cash and cash equivalents	(41,680)
Trade and other receivables	(29,616)
Prepaids and deposits	(28,514)
Inventory	(542,512)
Lease deposits	(35,544)
Property and equipment	(2,774,490)
Right-of-use assets	(4,500,761)
Intangible assets - Retail brand	(340,000)
Intangible assets - Retail license	(3,562,000)
Lease liability	4,500,761
Accounts payable and accrued liabilities	188,289
Deferred income tax liability	283,347
Total identifiable net assets at fair value	(6,882,720)
Goodwill	707,874

In connection with the acquisition, the Company acquired eight leases of the retail locations in Ontario. The Company has measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use asset was measured at an amount equal to the lease liability and will subsequently be amortized over the remaining lease period (Note 12).

8) TRADE AND OTHER RECEIVABLES

	January 31, 2022	January 31, 2021
	$	$
Trade receivables	198,303	132,719
Taxes receivable	7,723	2,451
Other receivables	91,773	6,913
	297,799	142,083

9) PREPAID AND DEPOSITS

	January 31, 2022	January 31, 2021
	$	$
Prepaid	349,960	179,633
Lease deposits	170,333	99,305
Other deposits	25,374	1,821
	545,667	280,759
Current prepaid expenses and deposits	375,334	181,454
Other and long-term lease deposits	170,333	99,305

10) INVENTORY

As at January 31, 2022, the Company had inventory totaling $2,771,763 (January 31, 2021 – $1,744,244), which consists of finished products including recreational cannabis and accessories purchased from third parties for resale. During the year ended January 31, 2022, $19,205,170 (January 31, 2021 – $11,957,658) of inventory was recognized as cost of sales. During the year ended January 31, 2022, inventory was reduced by $nil as result of a write-down to net realizable value (January 31, 2021 – $19,188).

11) PROPERTY AND EQUIPMENT

	Furniture and fixture	Computer equipment	Leasehold improvement	Software	Website	Total
Cost	$	$	$	$	$	$
Balance at January 31, 2020	103,681	191,817	1,871,352	103,085	52,763.00	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
Additions from acquisitions	15,110	306,465	2,456,149	-	-	2,777,724
Additions	23,434	294,507	652,074	58,512	2,904	1,031,431
Balance at January 31, 2022	150,067	872,045	5,509,365	164,245	72,622	6,768,344
Accumulated depreciation	$	$	$	$	$	$
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
Depreciation and amortization	24,385	145,128	586,201	24,663	10,675	791,052
Balance at January 31, 2022	72,241	327,846	1,573,087	109,686	69,751	2,152,611
Net book value	$	$	$	$	$	$
Balance at January 31, 2021	63,667	88,355	1,414,256	20,710	10,642	1,597,630
Balance at January 31, 2022	77,826	544,199	3,936,278	54,559	2,871	4,615,733

12) LEASES

Right-of-use assets

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

	$
Cost	
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
Additions	1,082,002
Additions from business combinations	4,643,443
Amendments	(292,583)
Depreciation	(1,397,126)
Balance at January 31, 2022	7,653,558

Lease liabilities

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

	$
Cost	
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
Additions	397,002
Additions from acquisitions	4,643,443
Amendments	(405,195)
Termination of lease	(211,272)
Payments net of interest	(635,448)
Balance at January 31, 2022	6,099,480
Current portion	1,007,160
Long-term portion	5,092,320

On February 19, 2021, the Company entered into a purchase and sales agreement with Grasshopper Cannabis Inc., pursuant to which the Company acquired: (a) the lease agreement for the property located in Kelowna, BC; (b) the development permit. Total purchase consideration amounted to $695,000 paid in cash. As the acquisition cost is a direct cost for acquiring the lease, the purchase consideration for this acquisition was included in the right-of-use asset account and amortized over the lease term using straight-line method.

For the year ended January 31, 2022, the Company recognized an interest expense on lease liabilities in the amount of $561,040 (January 31, 2021 – $448,775) in the consolidated statements of loss and comprehensive loss.

12) LEASES *(continued)*

Lease liabilities *(continued)*

For the year ended January 31, 2022, the Company recognized cash outflow for leases of $1,309,101 (January 31, 2021 – $1,094,509) in the consolidated statement of cash flows.

For the year ended January 31, 2022, an amount of $231,747 (January 31, 2021 – ($205,750)) was recognized as a gain/(loss) on lease modification and termination on leases in the consolidated statements of loss and comprehensive loss.

The company used an incremental borrowing rate of 14% at the date of the initial application for leases acquired in business combinations (Note 6 and 7).

The contractual obligation of the lease liability is disclosed in Note 23 for financial liabilities with contractual maturities.

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:

	$
Cost	
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
Interest accretion	50,449
Lease receipts	(212,274)
Balance at January 31, 2022	207,537
Current portion	200,924
Long-term portion	6,613

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	218,948
1 - 2 years	6,662
2 - 3 years	-
> 3 years	-
Total undiscounted lease payments receivable	225,610
Less: Interest accretion	(18,073)
Net investment in lease at January 31, 2022	207,537

13) 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 the year ended January 31, 2021, the Company sold the Tilray investment for net proceeds of $910,183, resulting in a realized and recognized loss of $2,105,548 and a realized foreign exchange gain of $38,413. The Company had $nil investment in marketable securities as at January 31, 2022 and 2021.

14) INTANGIBLE ASSETS AND GOODWILL

		Intangible Assets		
	Goodwill	**License**	**Brand & Intellectual Property**	**Total**
	$	$	$	$
Balance at January 31, 2021 and 2020	458,588	150,000	-	608,588
Additions from business combination (Cozy)	429,514	17,000	865,000	1,311,514
Additions from business combination (Hemisphere)	707,874	3,562,000	340,000	4,609,874
Amortization	-	(155,838)	(39,667)	(195,505)
Impairment	(756,918)	(3,039,667)	(287,466)	(4,084,051)
Balance at January 31, 2022	839,058	533,495	877,867	2,250,420

The Company's wholesale segment National Cannabis Distribution Inc. ("NCD") was identified as a Cash Generating Unit ("CGU") for impairment testing purposes. In assessing if an impairment loss was evident, the recoverable amount of the NCD CGU was determined to be equal to its VIU. In estimating the VIU, a five-year cash flow projection was prepared at a discount 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 margins of 11.5%. As at January 31, 2022, the carrying amount of the NCD CGU was determined to be lower than the recoverable amount, and no impairment was recorded.

On July 12, 2021, the Company acquired the right to lease a commercial retail location in Toronto, Ontario, as well as a digital platform and domain names associated with the Cozy acquisition described in Note 6. During the fiscal year ended January 31, 2022, management performed an assessment on the Cozy retail location CGU which resulted in an impairment charge of $89,044 against the carrying value of goodwill and intangible assets where it was determined the assets were not fully recoverable, and the retail location was closed subsequent to the year end. As at January 31, 2022, the Company performed its annual impairment test on the eCommerce CGU using the VIU method. The carrying amount of the eCommerce CGU was determined to be lower than the recoverable amount, and no impairment was recorded. The model was built using 5-year cash flows projections expected to be generated based on historical performance, financial forecasts, and growth expectations. Key assumptions that were used in the cash flow projections include using revenue growth range from 10% to 30%, terminal value of 2%, gross margins of 28% and cash flows were discounted at an after-tax discount rate of 26%.

On September 24, 2021, the Company acquired the right to lease eight commercial retail locations in Ontario with the Hemisphere acquisition described in Note 7. The company identified impairment indicators for two retail CGUs due to the increasing competitive market which impacted store performance. The carrying amount of the CGUs was determined to be higher than the recoverable amounts which is the CGUs' VIU, and an impairment charge of $526,889 to intangible assets was recorded. At January 31, 2022, the Company completed an impairment test over the group of CGUs to which goodwill had been allocated to from the Hemisphere acquisition (Note 7) using a 5-year discounted cash flow.

14) INTANGIBLE ASSETS AND GOODWILL *(continued)*

The carrying amount of the group of CGUs was determined to be higher than the recoverable amount, which is its' VIU, and a further impairment charge of $707,874 to goodwill and $2,760,244 to intangible assets was recorded. Key assumptions that were used in the cash flow projections include using revenue growth range from 2% to 10%, terminal growth rate of 2%, gross margins of 35% and cash flows were discounted at an after-tax discount rate of 22%.

Goodwill, arising from the acquisitions listed above, represents expected synergies, future income, growth, assembled workforce and other intangibles that do not qualify for separate recognition. None of the goodwill arising from these acquisitions is deductible for tax purposes.

Key assumptions used in the VIU and sensitivity to changes in assumptions

The calculation of the VIU for the retail CGU's impairment tests are most sensitive to the following assumptions:

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are derived from third party analyst reports. An increase in the discount rate by 2% would result in additional impairment of approximately $400,000 in the other assets in the Hemisphere group of CGUs.

Growth rates are based on Senior Management's expectations for future growth given the nature of the business, industry research and statistics, and the location of retail stores. A decrease in the growth rate by 1% would result in additional impairment of approximately $500,000 in other assets in the Hemisphere group of CGUs.

A 1% change in the gross margin would result in additional impairment of approximately $500,000 in intangible assets in the Hemisphere group of CGUs.

Changes to the key assumptions, being an increase of the discount rate by 2%, growth rate by 1% or gross margin by 1%, for the wholesale and eCommerce VIU calculations did not result in impairment.

15) LONG-TERM LIABILITIES

	January 31, 2022	January 31, 2021
	$	$
Promissory notes (i)	95,579	-
Convertible debenture (ii-v)	3,327,495	691,390
Canada Emergency Business Account Loan (vi)	54,542	49,129
	3,477,616	740,519
Current portion	858,281	120,283
Long-term portion	2,619,335	620,236

Promissory Notes

(i) On September 24, 2021, the Company entered into an agreement with Aegis (Note 7) for a promissory note in the amount of $104,629 interest-free and is due no later than September 24, 2022. The promissory note shall not be convertible into the Company's securities at any time.

The promissory note was initially recognized at fair value, determined at net present value of future payment of principal of $91,034 at an effective interest rate of 14%. As at January 31, 2022, the promissory note remains outstanding.

15) LONG-TERM LIABILITIES *(continued)*

Promissory Notes *(continued)*

During the year ended January 31, 2022, $4,546 (January 31, 2021 – $nil) was recorded as accretion expense on the promissory note and was included as finance expense in the consolidated statements of loss and comprehensive loss.

Convertible Debenture

(ii) During the year ended January 31, 2020, the Company issued convertible debentures for gross proceeds of $5,250,000. Immediately prior to the completion of the Qualifying Transaction, the 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. On May 31, 2021, the principal of $35,000 and accrued interest of $5,600 was paid in full.

(iii) 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, 2022, the principal balance of $100,000 convertible debt remained maturing February 1, 2022.

As at January 31, 2022, interest payable related to the convertible debentures of $16,877 (January 31, 2021 – $8,000) was accrued and included in accounts payable and accrued liabilities. During the year ended January 31, 2022, $23,156 (January 31, 2021 – $18,001) was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the consolidated statements of loss and comprehensive loss.

(iv) On May 11, 2020, the Company closed a non-brokered private placement of 1,000 units of the Company 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.

Each $1,000 2020 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.

15) LONG-TERM LIABILITIES *(continued)*

Convertible Debenture *(continued)*

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.

During the year ended January 31, 2021, the Company settled three 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 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, including accrued interest of $4,332. A gain of $4,418 was recorded on the settlement of this debt. As at January 31, 2022, the principal balance of $700,000 of convertible debentures remain outstanding.

As at January 31, 2022, interest payable related to the convertible debentures of $93,333 (January 31, 2021 – $37,333) was accrued and included in accounts payable and accrued liabilities. During the year ended January 31, 2022, $147,594 (January 31, 2021 – $82,534) was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the consolidated statements of loss and comprehensive loss.

(v) On October 28, 2021, the Company completed a private placement of 3,759 convertible debenture units of the Company (the “Units”) at a price of $1,000 per unit, for gross proceeds of $3,759,000. Each unit consists of one 8% senior unsecured convertible debenture (each, a "Convertible Debenture") having a face value of $1,000, maturing October 28, 2024, and convertible into common shares of the Company (each a "Common Share") at a conversion price of $0.13 per Common Share (the "Conversion Price"), subject to the terms of a convertible debenture indenture dated October 28, 2021 (the "Debenture Indenture"), between the Company and Odyssey Trust Company, as debenture trustee; and 3,846 Common Share purchase warrants of the Company (the "Warrants").

The Convertible Debentures are also subject to an accelerator option, whereby the Company shall have the right but not the obligation to convert some or all the then outstanding Convertible Debentures into Common Shares at the Conversion Price, if the 30-day volume weight average price of the Common Shares on the TSX Venture Exchange is greater than $0.26. Each Warrant entitles the holder thereof to purchase one Common Share at $0.16 per Common Share until October 28, 2024. The aggregate and pre-tax value of the Warrants is $308,171 was calculated using the Black-Scholes model with a risk-free interest rate of 1.04%, a volatility of 89.88%, and was initially recorded in reserve for equity instruments.

15) LONG-TERM LIABILITIES *(continued)*

Convertible Debenture *(continued)*

The transaction costs of $343,277 were allocated on a proportionate basis to the debt and the residual component. The liability component was initially recognized at fair value, determined at net present value of future payments of interest and principal and net of transaction costs. The fair value of the liability component, net of transaction costs, ($2,475,079) was deducted from the face value of the instrument with the residual value, net of transaction costs and deferred income tax recovery at the rate of 27%, ($686,670) being allocated to the share conversion feature ($453,047) and the warrant component ($233,623) on a proportionate fair value basis. The effective interest rate on the convertible debenture is 13.53%.

The Company has granted the lead agents an option to purchase up to an additional 15% of the Units sold pursuant to the initial closing of the Convertible Debenture at the Issue Price, exercisable in whole or in part of any time up to 30 days after the date hereof.

In connection with the Convertible Debenture, the lead agents received a cash commission as a part of the transaction costs in the aggregate amount of $232,882 and 1,863,848 non-transferable broker warrants (the “Broker Warrants”). Each Broker Warrant is exercisable into one Common Share until October 28, 2024, at a price of $0.13 per Common Share. The aggregate and pre-tax value of the Broker Warrants is $44,024 was calculated using the Black-Scholes model with a risk-free interest rate of 1.04%, a volatility of 89.88%, and an expected life of three years, and was initially recorded in reserve for equity instruments.

As at January 31, 2022, the principal balance of $3,759,000 remains outstanding and interest payable related to the convertible debentures of $25,060 (January 31, 2021 – $nil) was accrued and included in accounts payable and accrued liabilities. During the year ended January 31, 2022, $166,564 was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the consolidated statements of loss and comprehensive loss.

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

	Convertible debenture	Derivative liability	Total
	$	$	$
Balance, January 31, 2020	4,208,107	1,285,000	5,493,107
Convertible debt issued (iii-iv)	2,360,467	459,515	2,819,982
Convertible debt settled (iv)	(229,720)	(74,611)	(304,331)
Convertible debt converted to shares (ii,iv)	(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
Convertible debt settled (ii)	(36,332)	(8,744)	(45,076)
Convertible debt issued (v)	2,475,079	-	2,475,079
Accretion of convertible debentures	197,358	-	197,358
Change in fair value of derivative liability	-	(344)	(344)
Balance, January 31, 2022	3,327,495	199,298	3,526,793

As at January 31, 2022, interest payable related to the convertible debentures of $135,270 (January 31, 2021 – $50,090) was accrued and included in accounts payable and accrued liabilities. During the year ended January 31, 2022, $338,596 (January 31, 2021 – $927,107) was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the consolidated statements of loss and comprehensive loss.

15) LONG-TERM LIABILITIES *(continued)*

Convertible Debenture *(continued)*

Key assumptions that were used in the fair value of embedded derivative include the risk-free interest rate (1.23%). During the year ended January 31, 2022, the change in fair value of embedded derivative liability of $344 (January 31, 2021 – ($27,094)) was recognized in the consolidated statements of loss and comprehensive loss.

Canada Emergency Business Account ("CEBA") Loan

(vi) 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, 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, 2023, and 5% interest thereafter from January 1, 2024, until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2024, and the balance by December 31, 2025. The effective interest used is 10%. During the year ended January 31, 2022, $5,413 (January 31, 2021 – $2,634) was recorded as interest expense on the CEBA loan and was included as finance expense in the consolidated statement of loss and comprehensive loss.

16) SHARE CAPITAL

Authorized

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

Shares Issued and Outstanding

As at January 31, 2022, 268,160,546 common shares (January 31, 2020 – 173,565,679) were issued and outstanding. As at January 31, 2022, the escrowed share balance was 3,928,748.

Following the completion of the Qualifying Transaction, Kiaro had a number of securities under escrow to be released in accordance with escrow agreements. The escrowed shares shall be released pro-rata to the shareholders where 10% was issued at notice of final acceptance of the Qualifying Transaction by the TSX-V and the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrowed shares may not be transferred, assigned and or otherwise dealt without the consent of the regulatory authorities.

Shares Issued

During the year ended January 31, 2022:

On March 11, 2021, the Company issued 18,750,000 common shares at a price of $0.16 per common share in a bought deal private placement with gross proceeds of $3,000,000, excluding transaction costs of $369,713.

On May 28, 2021, the Company issued 215,238 common shares at the market price of $0.105 per common share for services rendered to a third party vendor at a value of $22,600.

On July 12, 2021, the Company issued 6,296,296 common shares at the market price of $0.13 per common share, which represents the share consideration for the acquisition of 8651159 Canada Inc. of $818,518 (Note 6).

On September 24, 2021, the Company issued 61,300,000 common shares at the market price of $0.10 per common share, which represents the share consideration for the acquisition of 2734524 Ontario Inc. of $6,130,000 (Note 7).

16) SHARE CAPITAL *(continued)*

Shares Issued *(continued)*

On September 24, 2021, the Company issued 1,333,333 common shares at the market price of $0.10 per common share for bonuses to the Company's Officers (Note 17).

On November 8, 2021, the Company issued 6,700,000 common shares at the price of $0.10 per common share for, which represents the consideration for the milestone event in the acquisition of 2734524 Ontario Inc. of $670,000 (Note 7).

During the year ended January 31, 2021:

On February 1, 2020, the Company cancelled 8,532,423 common shares at a price of $0.633 per common share 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 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 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 11, 2020, the Company closed a non-brokered private placement of preferred shares in the gross amount of $1,000,000. The preferred shares are non-redeemable, non-retractable, have voting rights and have first entitlement to any dividends and in the event of liquidation.

On May 31, 2020, the Company issued 416,666 common shares at a 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 July 7, 2020, Kiaro issued 10,000,000 preferred shares for the conversion of convertible debentures issued.

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.

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.

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 4).

Warrants

During the year ended January 31, 2022, the Company recorded $8,415 in stock-based compensation for warrants (January 31, 2021 – $222,796).

During the year ended January 31, 2022:

On March 11, 2021, the Company issued 9,375,000 warrants related to the common shares issued in the bought deal private placement at an exercise price of $0.23. In addition, the Company issued 1,312,500 broker warrants exercisable at $0.16 to the brokers of this private placement. Each broker warrant consists of one common share and a one half warrant, equal to 656,250 warrants exercisable at $0.23. The total value of the warrants issued was $455,368, net of transaction costs.

16) SHARE CAPITAL *(continued)*

***Warrants** (continued)*

On September 24, 2021, the Company issued 6,700,000 warrants related to the common shares issued in the acquisition of Hemisphere at an exercise price of $0.16. The total value of the warrants issued was $310,572.

On October 28, 2021, the Company issued 14,457,114 warrants related to the issuance in the private placement of convertible debentures (Note 15 (vi)) at an exercise price of $0.16. In addition, the Company issued 1,863,848 broker warrants exercisable at $0.13 to the brokers of this private placement. Each broker warrant consists of one common share exercisable at $0.13. The total aggregate and pre-tax value of the warrants issued was $352,195.

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. Each warrant was exercisable for the period of (a) 3 years from May 11, 2020, or (ii) 2 years following the Qualifying Transaction at a price of $0.13. Each warrant expires on the earlier of: (a) the third anniversary of the first issue date; (b) the second anniversary of a go-public event; (c) thirty days following Kiaro delivering notice of its exercise of an acceleration right; and (c) if Kiaro completes a go-public event prior to October 31, 2020, immediately upon the occurrence of the go-public event, will be cancelled at the effective time and will not have been exercisable at any time. As Kiaro completed the go-public event prior to October 31, 2020 (Note 5), the warrants were cancelled.

The following table summarizes the movement in warrants for the year ended January 31, 2022 and 2021:

	Warrants Outstanding	Weighted Average Exercise Price
	#	$
Balance at January 31, 2020	9,214,198	0.42
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
Granted	33,708,462	0.178
Forfeited	(131,250)	0.200
Expired	(5,011,068)	0.570
Balance at January 31, 2022	36,104,990	0.178

Details of warrants outstanding As at January 31, 2022, is as follows:

Expiry Date	Warrants Outstanding	Warrants Exercisable	Exercise Price
	#	#	$
April 9, 2022 - February 20, 2029	2,396,528	2,386,111	0.20
March 11, 2024	1,312,500	1,312,500	0.16
March 11, 2024	9,375,000	9,375,000	0.23
September 24, 2024	6,700,000	6,700,000	0.16
October 28, 2024	14,457,114	14,457,114	0.16
October 28, 2024	1,863,848	1,863,848	0.13
	36,104,990	36,094,573	

The weighted average remaining life for the warrants outstanding is 2.65 years.

16) SHARE CAPITAL *(continued)*

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.

During the year ended January 31, 2022, the Company recorded stock-based compensation of $635,360 (January 31, 2021 – $913,165) for options vested.

During the year ended January 31, 2022:

The Company granted 4,875,000 options to the Company's advisory board member and employees at an exercise price of $0.20 per options for a period of 10 years with immediate to three years vesting periods.

The Company granted 750,000 options to the Company's consultant at an exercise price of $0.20 per options for a period of 3 years with immediate vesting.

During the year ended January 31, 2021:

The Company granted 3,375,000 options to the Company's advisory board member 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 4), 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.

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. The options are fully vested at grant date and expires upon end of consulting agreement on August 2, 2023.

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

	Options Outstanding	**Weighted Average Exercise Price**
	#	$
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
Granted	5,625,000	0.200
Forfeited	(1,108,332)	0.200
Expired	(195,858)	0.200
Balance at January 31, 2022	10,782,600	0.202

16) SHARE CAPITAL *(continued)*

Stock Options *(continued)*

Details of options outstanding as at January 31, 2022, are as follows:

Expiry Date	Weighted Average Remaining Life	Options Outstanding	Options Exercisable	Exercise Price
	#	#	#	$
August 2, 2023	1.50	583,432	583,432	0.17
February 23, 2024 - November 24, 2031	7.91	9,815,834	7,595,000	0.20
September 25, 2029	7.65	383,334	283,333	0.30
	7.55	10,782,600	8,461,765	

Fair Value Assumptions for Warrants and Options

The following inputs were used in the Black-Scholes model:

	For year ended January 31, 2022	For year ended January 31, 2021
Expected lives in years	3 - 10	2.75 - 10
Volatility	89.9% - 94.7%	100%
Risk-free interest rate range	0.31% - 1.77%	0.53%-0.55%
Share price range	$0.075 - 0.160	$0.090 - 0.180
Exercise price range	$0.13 - $0.23	$0.17 - $0.20
Dividend yield	$nil	$nil

17) RELATED PARTY TRANSACTIONS

Related parties include the Company's Officers and Directors. Transactions with related parties were conducted in the normal course of operations and are measured at the amount of consideration established and approved by the related parties.

Compensation for key management personnel is shown in the following table:

	Year ended	
	January 31, 2022	January 31, 2021
	$	$
Salaries and benefits	753,333	571,118
Consulting fee	-	120,000
Share-based compensation	425,369	564,796
Total key management compensation	1,178,702	1,255,914

During the year ended January 31, 2022, the Company issued 2,800,000 options at an exercise price of $0.20 per option to the Company's Officers and Directors which will vest over a period of 9 months.

On September 24, 2021, the Company issued 1,333,333 common shares at a price of $0.10 per common share to the Company's Officers.

17) RELATED PARTY TRANSACTIONS *(continued)*

On October 28, 2021, the Company issued 3,759 debenture units of the Company (Note 15(vi)) with each Debenture Unit consisting of one 8.0% convertible debenture of the Company with a maturity of three years from the date of issuance and 3,846 common share purchase warrants, with each warrant exercisable to acquire one common share of the Company at an exercise price of $0.16 for a period of three years from the date of issuance, all at a price of $1,000 per Debenture Unit. A company controlled by the CEO, participated in the offering and was issued 1,280 Debenture Units.

As at January 31, 2022, the Company has payables to related parties of $50,000 (January 31, 2020 – $147,817).

As at January 31, 2022, the company has a convertible debenture with a balance of $700,000 maturing May 31, 2022, owing to a company controlled by the CEO, with interest owing on the convertible debenture of $93,333 (January 31, 2021 – $37,333) (Note 15).

18) REVENUE

Major components of revenue are as follows:

	Year ended	
	January 31, 2022	**January 31, 2021**
	$	$
Recreational Cannabis	25,031,948	16,665,281
Accessories and Other	1,870,675	406,585
	26,902,623	17,071,866

The Company does not have any significant exposure to any individual customer as at January 31, 2022 and 2021.

19) 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, 2022 and 2021:

	January 31, 2022	**January 31, 2021**
	$	$
Loss before income taxes	9,732,193	(9,337,037)
Statutory tax rate	27.00%	27.00%
Expected income tax (recovery)	(2,627,692)	(2,521,000)
Non-deductible expense	542,894	1,372,774
Change in estimates	-	44,583
Tax effect of loan conversion	-	116,066
Change in deferred tax asset not recognized	1,368,694	987,577
Others	175,357	-
Total income tax expense (recovery)	(540,747)	-

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.

19) INCOME TAXES *(continued)*

Movement in net deferred tax liabilities:

	$
Balance, January 31, 2021	-
Recognized in profit/loss	540,747
Recognized in equity	(253,974)
Goodwill	(517,076)
Balance, January 31, 2022	(230,303)

Deferred tax asset (liabilities) at January 31, 2022 and 2021 are comprised of the following:

	January 31, 2022	January 31, 2021
	$	$
Non capital loss carryforwards	1,600,593	166,462
PPE including ROU asset	(641,459)	(44,975)
Intangible asset	(875,044)	(40,500)
Convertible loan	(332,506)	-
Lease liability	-	19,557
Net investment in lease	(56,035)	(99,728)
Purchase liability	-	(816)
Financing cost	74,148	-
	(230,303)	-

The unrecognized deductible temporary differences are as follows:

	January 31, 2022	January 31, 2021
	$	$
Non capital loss carryforwards	11,090,598	11,636,154
Lease liability	6,099,480	2,239,085
Convertible loan	-	64,776
Derivative liabilities	199,298	-
Deposit on ROU asset	-	5,000
CEBA loan	14,542	9,129
Donation	10,000	-
Financing costs	55,894	29,100
Capital loss	4,500,610	4,523,860
Unrecognized deductible temporary differences	21,970,422	18,507,104

As at January 31, 2022, the Company has not recognized a deferred tax asset in respect of non-capital loss carry-forwards of approximately $11,090,598 (January 31, 2021 - $11,626,154), 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:

Year of expiry	Canada
	$
2042	2,792,086
2041	3,928,606
2040	4,369,906
2039	-
	11,090,598

20) SEGMENTED INFORMATION

Throughout the years ended January 31, 2022 and 2021, the Company operated in three 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) Retail Cannabis Stores – The Company operates retail locations to sell and distribute cannabis and cannabis related products to individual consumers.

(ii) Wholesale Cannabis Business - The Company owns and operates a 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.

(iii) eCommerce – The Company owns and operates three eCommerce businesses that sell consumption accessories through its wholly owned subsidiaries Kiaro Digital Ltd. and Kiaro Australia Pty Ltd.

Corporate is not an operating segment and contains the Company's corporate, strategic, and administrative activities. The majority of the Company's assets and revenue is earned and located in Canada.

Year ended January 31, 2022	Retail cannabis stores	Wholesale cannabis business	Ecommerce	Corporate	Eliminations and adjustments	Total
	$	$	$	$	$	$
Revenue	17,434,588	8,141,242	1,326,793	-	-	26,902,623
Intercompany revenue	-	1,789,501	-	-	(1,789,501)	-
Total revenue	17,434,588	9,930,743	1,326,793	-	(1,789,501)	26,902,623
Cost of sales	10,933,976	9,007,971	1,056,072	-	(1,792,849)	19,205,170
Gross profit (loss)	6,500,612	922,772	270,721	-	3,348	7,697,453
Net profit (loss)	(5,043,710)	381,325	46,386	(4,578,795)	3,348	(9,191,446)
Total assets	14,093,362	2,077,536	1,412,573	3,110,764	-	20,694,235
Total liabilities	6,570,756	1,140,231	143,718	5,156,227	-	13,010,932

Year ended January 31, 2021	Retail cannabis stores	Wholesale cannabis business	Ecommerce	Corporate	Eliminations and adjustments	Total
	$	$	$	$	$	$
Revenue	12,045,863	5,026,003	-	-	-	17,071,866
Intercompany revenue	-	1,542,629	-	-	(1,542,629)	-
Total revenue	12,045,863	6,568,632	-	-	(1,542,629)	17,071,866
Cost of sales	7,460,228	6,036,319	-	-	(1,538,889)	11,957,658
Gross profit (loss)	4,585,635	532,313	-	-	(3,740)	5,114,208
Net profit (loss)	647,647	197,603	-	(10,178,547)	(3,740)	(9,337,037)
Total assets	4,842,232	2,007,247	-	2,819,578	(3,740)	9,665,317
Total liabilities	1,672,046	704,460	-	2,459,817	-	4,836,323

During the year ended January 31, 2022, an impairment loss of $4,084,051 (January 31, 2021 – $nil) was recorded to the retail cannabis stores segment.

21) COMMITMENTS AND CONTINGENCIES

In January, July, and October 2021, the Company entered into insurance contracts with a term of less than 12 months. As at January 31, 2022, the minimum remaining payments were estimated to be as follows:

	$
Less than 1 year	125,790
1 - 2 years	-
2 - 3 years	-
> 3 years	-
Total commitments and contingencies	125,790

In the normal course of business, the Company and its subsidiaries may become defendants in certain employment claims and other litigation. The Company records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. The Company is not involved in any legal proceedings other than routine litigation arising in the normal course of business, none of which the Company believes will have a material adverse effect on the Company's business, financial condition or results of the operations.

22) SUPPLEMENTAL CASH FLOW INFORMATION

Additional supplementary cash flow information is as follows:

	Year ended	
	January 31, 2022	**January 31, 2021**
	$	$
Interest paid	-	187,014
Non-cash settlement of loan receivable	-	341,214
Non-cash settlement of promissory note	-	235,177
Non-cash settlement of acquisitions with common shares	7,618,518	-
Non-cash settlement of convertible debenture with loan receivable	-	300,000
Non-cash settlement of related parties with common shares	133,333	-
Non-cash settlement of services with common shares	22,600	76,750
Non-cash settlement of convertible debentures with common shares	-	5,208,262

23) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	January 31, 2022	January 31, 2021
Financial assets	$	$
Amortized cost		
Cash and cash equivalents	2,351,758	1,304,829
Trade and other receivables (exclude sales taxes receivable)	290,076	139,632
Refundable lease deposits	150,333	140,333
Net investment in finance lease	207,537	369,362
Total financial assets	2,999,704	1,813,823
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	199,298	208,386
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (excludes sales taxes payable)	2,859,910	1,219,745
Due to related parties	50,000	147,817
Purchase liabilities	-	103,230
Lease liabilities	6,099,480	2,310,950
Long-term liabilities	3,477,616	740,519
Total financial liabilities	12,686,304	4,730,647

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) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at July 11, 2021, with the acquisition of 8651159 Canada Inc., the Company began to operate outside of Canada with foreign currency bank accounts and transacted in foreign currencies. The Company’s exposure to currency risk as at January 31, 2022, represented approximately 3.4% of total sales and 0.9% of total operating expenses. The Company was not exposed to currency risk as at January 31, 2021. Based on the balances as at January 31, 2022, a 1% increase or decrease in the Canadian dollar exchange rate against all of the other currencies on that date would have resulted in an increase or decrease of approximately $18,000 (January 31, 2021 – $nil) in loss before taxes.

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.

23) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(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, 2022, the Company had $2,351,758 in cash and cash equivalents (January 31, 2021 – $1,304,829). The Company is obligated to pay financial liabilities with total carrying amounts to $4,869,676 (January 31, 2021 – $2,420,655) in the next 12 months.

As at January 31, 2022, 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 sale taxes payable)	2,859,910	-	-	-	-	2,859,910
Due to related parties	50,000	-	-	-	-	50,000
Lease liabilities	1,815,507	1,533,523	1,142,920	1,018,251	4,012,892	9,523,093
Long-term liabilities	1,217,349	303,720	4,010,929	61,500	-	5,593,498
Total	5,942,766	1,837,243	5,153,849	1,079,751	4,012,892	18,026,501

Credit Risk

Credit risk arises from cash and cash equivalents held with banks, and trade and other receivable (excluding sales taxes receivable). The Company does not have a significant concentration of credit risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash and cash equivalents are held by reputable financial institutions. The Company is not aware of any material collection issues.

The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. Trade receivables are written off when there is no reasonable expectation of recovery.

The following table summarizes the Company's aging of trade receivables (excluding sales taxes receivable) and expected credit losses as at January 31, 2022:

	0 - 30 days	31 - 61 days	61 - 90 days	> 90 days
	$	$		
Trade receivables (exclude sales taxes receivable)	92,360	2,654	47,758	55,531
Expected credit losses	-	-	-	-
Total	92,360	2,654	47,758	55,531

23) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Credit Risk *(continued)*

The Company performs a regular assessment of collectability of accounts receivables. In determining the expected credit loss amount, the Company considers the customer's financial position, payment history and economic conditions. For the year ended January 31, 2022, management reviewed the estimates and have not created any loss allowances on trade receivables as they are not considered overdue.

COVID-19 Risk and other world events

Beginning March 2020, the outbreak of the novel strain of coronavirus ("COVID-19"), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in a significant economic slowdown.

The armed conflict between Russia and Ukraine and any restrictive actions that are or may be taken by Canada, the United States and other countries in response thereto, such as sanctions or export controls, could have negative implications on the financial markets generally.

The duration and impact of these world events are unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiaries in future periods.

To date, the Company has not seen significant impacts on operations as a result of these world events and has adapted by implementing new safety protocols. The Company is closely monitoring the impact of the pandemic on all aspects of the business.

Fair Value Measurement

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

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

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

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

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

				January 31, 2022
Fair value through profit or loss	Level 1	Level 2	Level 3	Total
	$	$	$	$
Embedded derivative liability	-	-	199,298	199,298
	-	-	199,298	199,298

23) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

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 1.23% (January 31, 2021 – 0.14%).

For cash and cash equivalents, trade and other receivables (excluding sales taxes receivable), refundable lease deposits, accounts payable and accrued liabilities (excluding sales taxes 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.