



KIARO HOLDINGS CORP.
(FORMERLY DC ACQUISITION CORP.)

Condensed Consolidated Interim Financial Statements

For the three months ended April 30, 2021 and 2020

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements, the financial statements must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Kiaro Holdings Corp. (the "Company" or "Kiaro") have been prepared by management, reviewed by the Audit Committee and approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)

Condensed Consolidated Interim Statements of Financial Position
As at April 30, 2021 and January 31, 2021
(Expressed in Canadian Dollars)

	Notes	April 30, 2021	January 31, 2021
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		2,601,287	1,304,829
Trade and other receivables	4	124,193	142,083
Prepays and deposits	5	142,616	181,454
Inventory	6	1,801,927	1,744,244
Net investment in finance lease	8	171,983	156,915
		4,842,006	3,529,525
Non-current assets			
Lease deposits	5	106,655	99,305
Property and equipment	7	1,387,305	1,597,630
Right-of-use assets	8	3,553,283	3,617,822
Net investment in finance lease	8	161,052	212,447
Intangible assets and goodwill	9	1,303,588	608,588
		6,511,883	6,135,792
TOTAL ASSETS		11,353,889	9,665,317
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10	1,205,808	1,325,421
Due to related parties	13	119,049	147,817
Current portion of lease liabilities	8	765,805	723,904
Current portion of purchase liability		-	103,230
Current portion of long-term liabilities	11	124,891	120,283
		2,215,553	2,420,655
Non-current liabilities			
Long-term portion of lease liabilities	8	1,624,244	1,587,046
Embedded derivative liabilities	11	208,145	208,386
Long-term liabilities	11	640,602	620,236
		2,472,991	2,415,668
TOTAL LIABILITIES		4,688,544	4,836,323
EQUITY ATTRIBUTABLE TO SHAREHOLDERS			
Share capital	12	27,922,368	26,386,873
Reserves	12	4,182,317	2,901,540
Accumulated deficit		(25,439,340)	(24,459,419)
TOTAL EQUITY		6,665,345	4,828,994
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		11,353,889	9,665,317

Commitments and Contingencies (Note 16)
Subsequent Events (Note 18)

(The accompanying notes are an integral part of these Condensed Consolidated Interim financial statements)

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

	Notes	Three months ended April 30, 2021	Three months ended April 30, 2020
		\$	\$
Revenue			
Revenue	14	5,167,064	2,666,711
Cost of sales	6	3,609,403	1,951,426
Gross profit		1,557,661	715,285
Operating expenses			
Consulting and professional fees		220,279	237,586
Depreciation and amortization	7,8,16	534,290	293,915
General and administration expenses		286,663	189,102
Marketing, meals and entertainment		128,992	35,918
Salaries and employee benefits	13	1,101,691	746,695
Share-based compensation	12,13	185,985	396,082
		2,457,900	1,899,298
Other (expenses) income			
Change in fair value of derivative liabilities	11	(241)	(23,501)
Finance income		61,147	-
Finance expense	8,11	(140,588)	(463,572)
Foreign exchange gain		-	38,413
Inventory write-down	6	-	(19,188)
Lease termination loss and loss on sublease	8	-	(53,422)
Realized loss on sale of marketable securities		-	(2,105,548)
		(79,682)	(2,626,818)
Net loss and comprehensive loss		(979,921)	(3,810,831)
Loss per share, basic and diluted		(0.01)	(0.04)
Weighted average common shares outstanding - basic and diluted		183,867,877	97,568,432

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

	Notes	Share Capital				Total Equity
		Common Shares	Amount	Reserve	Deficit	
		#	\$	\$	\$	
Balance on January 31, 2020		98,048,458	14,987,041	1,186,081	(15,122,382)	1,050,740
Reclass of warrants value on prior issuance	12	-	(509,196)	509,196	-	-
Shares converted to debentures		(500,000)	(100,000)	-	-	(100,000)
Shares issued as consideration	12	28,583	16,750	-	-	16,750
Share-based compensation	12	-	-	396,082	-	396,082
Net loss and comprehensive loss for the period		-	-	-	(3,810,831)	(3,810,831)
Balance on April 30, 2020		97,577,041	14,394,595	2,091,359	(18,933,213)	(2,447,259)
Balance on January 31, 2021		173,565,679	26,386,873	2,901,540	(24,459,419)	4,828,994
Shares issued as consideration, net of costs	12	18,750,000	2,630,287	-	-	2,630,287
Warrants issued as consideration	12	-	(1,094,792)	1,094,792	-	-
Share-based compensation	12	-	-	185,985	-	185,985
Net loss and comprehensive loss for the period		-	-	-	(979,921)	(979,921)
Balance on April 30, 2021		192,315,679	27,922,368	4,182,317	(25,439,340)	6,665,345

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)
Condensed Consolidated Interim Statements of Cash Flows
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

	Three months ended April 30, 2021	Three months ended April 30, 2020
	\$	\$
Cash provided by (used in):		
Operating activities:		
Net loss	(979,921)	(3,810,831)
Non-cash items:		
Depreciation and amortization	534,290	293,915
Share-based compensation	185,985	396,082
Shares issued for services	-	16,750
Inventory write-down	-	19,188
Foreign exchange gain	-	(38,413)
Finance expense	140,588	371,504
Finance income	(15,269)	-
Change on fair value of embedded derivative	(241)	23,501
Lease termination loss and loss on sub-lease	-	53,422
Realized loss on sale of marketable securities	-	2,105,548
Changes in non-cash working capital:		
Trade and other receivables	12,298	(3,645)
Prepays and deposits	38,837	136,025
Inventory	(57,683)	85,157
Due to related parties	(30,000)	-
Accounts payable and accrued liabilities	(130,007)	(60,413)
	(301,123)	(412,210)
Investing activities:		
Property and equipment	(3,506)	(264,057)
Proceeds from sale of marketable securities	-	910,183
Lease deposits	(7,350)	-
Payments towards prior year business combination	(106,250)	(106,250)
Acquisition of lease properties	(695,000)	-
	(812,106)	539,876
Financing activities:		
Payments received relating to restricted deposits	-	217,000
Loan proceeds from CEBA	-	40,000
Loan received from related party	-	500,000
Repayments on loan from related party	-	(150,000)
Payments received on net investment in finance lease	51,596	54,583
Payments on lease obligations	(272,197)	(243,028)
Loan repayments	-	(700,000)
Issuance of common shares, net of transaction costs	2,630,288	-
	2,409,687	(281,445)
Net change in cash and cash equivalents	1,296,458	(153,779)
Cash and cash equivalents, beginning	1,304,829	1,418,764
Cash and cash equivalents, ending	2,601,287	1,264,985

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

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)

Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

1) NATURE OF OPERATIONS

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

Kiario Brands Inc. ("KBI") was formed on September 9, 2019, through the amalgamation of Aura Cannabis Inc. ("Aura") and Elora Capital Ltd. ("Elora"), via an amalgamation agreement entered on July 24, 2019. Aura was incorporated under the Business Corporation Act of British Columbia on December 11, 2017 and was formed to own and operate cannabis retail stores in various provinces of Canada. Elora was incorporated under the Business Corporation Act of British Columbia on March 13, 2018 and was formed for the primary purpose of identifying and evaluating assets or businesses with a view of completing a transaction. Following the amalgamation, both Aura and Elora were dissolved.

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

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

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

The COVID-19 pandemic has generated both opportunities and challenges for organizations globally. Since the initial outset of the pandemic, the Company did not experience any decline in sales for all of our operating segments. The degree to which COVID-19 will affect the Company's results and operations will depend on future developments that are highly uncertain and cannot currently be predicted.

2) BASIS OF PRESENTATION AND MEASUREMENT

a) Statement of Compliance

These condensed consolidated interim financial statements of the Company have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company's last annual consolidated financial statements as at and for the year ended January 31, 2021 ('last annual financial statements'). They do not include all of the information required for a complete set of financial statements prepared in accordance with IFRS Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Director on June 24, 2021.

KIARO HOLDINGS CORP.
(formerly DC Acquisition Corp.)

Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

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

b) Basis of Measurement

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

c) Consolidation

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

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

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

d) Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian Dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiaries are Canadian Dollars.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies disclosed in the notes to the annual consolidated financial statements of the Company for the year ended January 31, 2021, have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

4) TRADE AND OTHER RECEIVABLES

	April 30, 2021	January 31, 2021
	\$	\$
Trade receivables	124,075	132,719
GST receivable	-	2,451
Other receivables	118	6,913
	124,193	142,083

KIARO HOLDINGS CORP.
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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

5) PREPAIDS AND DEPOSITS

	April 30, 2021	January 31, 2021
	\$	\$
Prepaid	136,251	179,633
Lease deposits	106,655	99,305
Other deposits	6,365	1,821
	<u>249,271</u>	<u>280,759</u>
Current prepaid expenses	142,616	181,454
Long-term lease deposits	106,655	99,305

6) INVENTORY

As at April 30, 2021, the Company had inventory totaling \$1,801,927 (January 31, 2021 – \$1,744,244), which consists of finished products including recreational cannabis and accessories purchased from third parties for resale. During the three months ended April 30, 2021, \$3,609,403 (April 30, 2020 – \$1,951,426) of inventory was recognized as cost of sales. During the three months ended April 30, 2020, inventory was reduced by \$19,188 as a result of a write-down to net realizable value.

7) PROPERTY AND EQUIPMENT

	Furniture and fixtures	Computer equipment	Leasehold improvements	Software	Website	Total
Cost	\$	\$	\$	\$	\$	\$
Balance at January 31, 2021	111,523	271,073	2,401,142	105,733	69,718	2,959,189
Additions	-	-	3,506	-	-	3,506
Disposals	-	-	-	-	-	-
Balance at April 30, 2021	<u>111,523</u>	<u>271,073</u>	<u>2,404,648</u>	<u>105,733</u>	<u>69,718</u>	<u>2,962,695</u>
Accumulated depreciation	\$	\$	\$	\$	\$	\$
Balance at January 31, 2021	47,856	182,718	986,886	85,023	59,076	1,361,559
Disposals	-	-	-	-	-	-
Depreciation and amortization	5,577	21,291	178,393	5,282	3,288	213,831
Balance at April 30, 2021	<u>53,433</u>	<u>204,009</u>	<u>1,165,279</u>	<u>90,305</u>	<u>62,364</u>	<u>1,575,390</u>
Net book value	\$	\$	\$	\$	\$	\$
Balance at January 31, 2021	63,667	88,355	1,414,256	20,710	10,642	1,597,630
Balance at April 30, 2021	<u>58,090</u>	<u>67,064</u>	<u>1,239,369</u>	<u>15,428</u>	<u>7,354</u>	<u>1,387,305</u>

KIARO HOLDINGS CORP.
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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

8) 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, 2021	3,617,822
Additions	249,507
Amendments	6,413
Depreciation	(320,459)
Balance at April 30, 2021	3,553,283

Lease liabilities

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

	\$
Cost	
Balance at January 31, 2021	2,310,950
Additions	249,507
Amendments	6,413
Payments net of interest	(176,821)
Balance at April 30, 2021	2,390,049
Current portion	765,805
Long-term portion	1,624,244

For the three months ended April 30, 2021, the Company recognized an interest expense on lease liabilities in the amount of \$98,396 (April 30, 2020 – \$113,476) in the condensed consolidated interim statements of loss and comprehensive loss. The acquisition in the City of Kelowna resulted in the addition of right-of-use assets and lease liabilities.

For the three months ended April 30, 2021, the Company recognized cash outflow for leases of \$272,197 (April 30, 2020 – \$243,028) in the condensed consolidated interim statement of cash flows.

For the three months ended April 30, 2021, an amount of \$nil (April 30, 2020 – \$53,422) was recognized for lease termination loss and loss on sub-lease for various lease agreements.

The Company used an incremental borrowing rate of 17.95% and 19.95% at the date of the initial application for leases entered in prior years. In the three months ended April 30, 2021, the Company used an incremental borrowing rate of 14% for the new lease acquired.

The lease liability is disclosed in Note 17 for financial liabilities with contractual maturities.

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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

8) LEASES (continued)

Net investment in finance lease

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

	\$
Cost	
Balance at January 31, 2021	369,362
Additions	-
Amendments	-
Interest accretion	15,269
Lease receipts	(51,596)
Balance at April 30, 2021	333,035
Current portion	171,983
Long-term portion	161,052

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	214,980
1 - 2 years	171,308
2 - 3 years	-
> 3 years	-
Total undiscounted lease payments receivable	386,288
Less: Interest accretion	(53,253)
Net investment in lease at April 30, 2021	333,035

9) INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Intangible assets	Total
	\$	\$	\$
Balance at January 31, 2021	458,588	150,000	608,588
Addition	-	695,000	695,000
Impairment	-	-	-
Balance at April 30, 2021	458,588	845,000	1,303,588

On March 15, 2021, the Company acquired the right to lease a commercial retail location in Kelowna, BC. The Company paid \$695,000 for the acquisition, excluding expenses and fees, and the full consideration was recognized as an intangible asset.

KIARO HOLDINGS CORP.
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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

10) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	April 30, 2021	January 31, 2021
	\$	\$
Accounts payable	739,847	911,563
Accrued liabilities	354,618	308,182
GST Payable	4,876	-
PST Payable	106,467	105,676
	1,205,808	1,325,421

11) LONG-TERM LIABILITIES

	April 30, 2021	January 31, 2021
	\$	\$
Promissory notes	-	-
Convertible debenture (i-iii)	715,095	691,390
Canada Emergency Business Account Loan (iv)	50,398	49,129
	765,493	740,519
Current portion	124,891	120,283
Long-term portion	640,602	620,236

Promissory Notes

During the three months ended April 30, 2021, \$nil (April 30, 2020 – \$78,273) was recorded as interest and accretion expense on the promissory notes and was included as finance expense in the condensed consolidated interim statement of loss and comprehensive loss.

Convertible Debenture

- (i) 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. As at April 30 and January 31, 2021, the remaining principal balance of \$35,000 will mature on May 31, 2021.
- (ii) 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 April 30 and January 31, 2021, \$100,000 convertible debt remains maturing February 1, 2022.
- (iii) 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 mature 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 April 30 and January 31, 2021, \$700,000 of convertible debentures remain outstanding.

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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

11) LONG-TERM LIABILITIES *(continued)*

Convertible Debenture *(continued)*

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

	Convertible debenture	Derivative liability	Total
	\$	\$	\$
Balance, January 31, 2021	691,390	208,386	899,776
Accretion of convertible debentures	23,705	-	23,705
Change in fair value of derivative liability	-	(241)	(241)
Balance, April 30, 2021	715,095	208,145	923,240

As at April 30, 2021, interest payable related to the convertible debentures of \$66,790 (January 31, 2021 – \$50,090) was accrued and included in accounts payable and accrued liabilities. During the three months ended April 30, 2021, \$39,922 (April 30, 2020 – \$253,416) was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the condensed consolidated interim statement of loss and comprehensive loss.

Key assumptions that were used in the fair value of embedded derivative include the risk-free interest rate 0.29%. During the three months ended April 30, 2021, the change in fair value of embedded derivative liability of \$241 (April 30, 2020 – \$23,501) was recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Canada Emergency Business Account (“CEBA”) Loan

- (iv) 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, 2022, and 5% interest thereafter from January 1, 2023, until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2023, and the balance by December 31, 2025. The effective interest used is 10%. During the three months ended April 30, 2021, \$1,268 (April 30, 2020 – \$nil) was recorded as interest expense on the CEBA loan and was included as finance expense in the condensed consolidated interim statement of loss and comprehensive loss.

12) SHARE CAPITAL

Authorized

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

Shares Issued and Outstanding

As at April 30, 2021, 192,315,679 common shares (January 31, 2021 – 173,565,679) were issued and outstanding.

During the three months ended April 30, 2021:

On March 11, 2021, the Company issued 18,750,000 common shares at a deemed price of \$0.16 per common share in a bought deal private placement with gross proceeds of \$3,000,000 less broker commissions of \$210,000 and other transaction costs of \$159,713.

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Notes to the Condensed Consolidated Interim Financial Statements
For the Three Months Ended April 30, 2021 and 2020
(Expressed in Canadian Dollars)

12) SHARE CAPITAL (continued)

During the three months ended April 30, 2020:

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

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

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

Warrants

The Company recorded \$10,919 in stock-based compensation for warrants during the three months ended April 30, 2021 (April 30, 2020 – \$122,889).

During the three months ended April 30, 2021:

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.

During the three months ended April 30, 2020, no warrants were issued or exercised.

The following table summarizes the movement in warrants for the three months ended April 30, 2021:

	Warrants Outstanding	Weighted Average Exercise Price
	#	\$
Balance at January 31, 2021	7,538,846	0.317
Granted	11,343,750	0.222
Cancelled	(29,167)	0.200
Balance at April 30, 2021	18,853,429	0.260

Details of warrants outstanding as at April 30, 2021, is as follows:

Expiry Date	Warrants		Exercise Price
	Outstanding	Exercisable	
	#	#	\$
September 13, 2021	1,706,484	1,706,484	0.59
June 30, 2021 - July 22, 2029	2,750,695	2,425,694	0.20
October 17, 2021 - December 24, 2021	3,052,500	3,052,500	0.60
March 11, 2024	1,312,500	1,312,500	0.16
March 11, 2024	10,031,250	10,031,250	0.23
	18,853,429	18,528,428	

The weighted average remaining life for the warrants outstanding is 2.57 years.

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12) 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.

For the three months ended April 30, 2021, the Company recorded stock-based compensation of \$175,066 (April 30, 2020 – \$273,193) for options vested.

During the three months ended April 30, 2021:

The Company granted 2,100,000 options to the Company's advisory board and board members at an exercise price of \$0.20 per options for a period of 10 years with various vesting periods.

The Company granted 750,000 options to a consultant of the Company at an exercise price of \$0.20 per option over a vesting period of 16 months.

During the three months ended April 30, 2020, no options were issued or exercised.

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

	Options Outstanding	Weighted Average Exercise Price
	#	\$
Balance at January 31, 2021	6,461,790	0.203
Granted	2,850,000	0.200
Cancelled	(25,000)	0.200
Forfeited	(125,000)	0.200
Balance at April 30, 2021	9,161,790	0.202

Details of options outstanding as at April 30, 2021, are as follows:

Expiry Date	Weighted Average Remaining Life	Options Outstanding	Options Exercisable	Exercise Price
	#	#	#	\$
August 2, 2023	2.26	729,290	729,290	0.17
February 23, 2024 - April 1, 2031	8.36	8,007,500	1,899,167	0.20
September 25, 2029	8.41	425,000	141,667	0.30
	7.87	9,161,790	2,770,123	

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12) SHARE CAPITAL (continued)

Fair Value Assumptions for Warrants and Options

	For three month ended April 30, 2021	For three month ended April 30, 2020
Expected lives in years	3 - 10	N/A
Volatility	120% - 140%	N/A
Risk-free interest rate range	0.31% - 1.51%	N/A
Share price range	\$0.110 - 0.190	N/A
Exercise price range	\$0.16 - \$0.23	N/A
Dividend yield	\$nil	N/A

13) RELATED PARTY TRANSACTIONS

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

Compensation for key management personnel, including the Company's Officers and Board of Directors, is shown in the following table:

	Three months ended April 30, 2021	Three months ended April 30, 2020
	\$	\$
Salaries and benefits	128,333	45,396
Consulting fee	-	45,000
Share-based compensation	99,115	158,595
Total key management compensation	227,448	248,991

During the three months ended April 30, 2021, the Company issued 2,000,000 options at an exercise price of \$0.20 per option to directors of the Company which vest over a period of 1 year.

On February 14, 2020, the Company entered an unsecured \$500,000 short-term loan with the CEO of the Company. The loan bears interest of prime plus one percent per annum and is payable on demand. As of January 31, 2021, the loan included accrued interest of \$4,571 and had been fully repaid.

As at April 30, 2021, the Company has payables to related parties of \$119,049 (January 31, 2020 – \$147,817).

As at April 30, 2021, 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 \$51,333 (Note 11).

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14) REVENUE

Major components of revenue are as follows:

	Three months ended April 30, 2021	Three months ended April 30, 2020
	\$	\$
Recreational Cannabis	5,037,545	2,625,307
Accessories and Other	129,519	41,404
	<u>5,167,064</u>	<u>2,666,711</u>

The Company does not have any significant exposure to any individual customer as at April 30 and January 31, 2021.

15) SEGMENTED INFORMATION

Throughout the three months ended April 30, 2021, and 2020, the Company operated in two reportable segments. These segments targeted different customers and are managed separately because they require different personnel, sales, and marketing strategies.

The following describes the operations of each reportable segment:

- (i) 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.

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

Three months ended April 30, 2021	Retail cannabis stores	Wholesale cannabis business	Corporate	Eliminations and adjustments	Total
	\$	\$	\$	\$	\$
Revenue	3,824,080	1,342,984	-	-	5,167,064
Intercompany revenue	-	512,217	-	(512,217)	-
Total revenue	3,824,080	1,855,201	-	(512,217)	5,167,064
Cost of sales	2,392,150	1,726,716	-	(509,463)	3,609,403
Gross profit (loss)	1,431,930	128,485	-	(2,754)	1,557,661
Net profit (loss)	144,288	14,666	(1,136,121)	(2,754)	(979,921)
Total assets	2,686,962	4,609,845	4,057,082	-	11,353,889
Total liabilities	1,014,653	585,482	3,088,409	-	4,688,544

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15) SEGMENTED INFORMATION *(continued)*

Three months ended April 30, 2020	Retail cannabis stores	Wholesale cannabis business	Corporate	Eliminations and adjustments	Total
	\$	\$	\$	\$	\$
Revenue	1,563,165	1,103,546	-	-	2,666,711
Intercompany revenue	-	232,650	-	(232,650)	-
Total revenue	1,563,165	1,336,196	-	(232,650)	2,666,711
Cost of sales	969,943	1,210,525	-	(229,042)	1,951,426
Gross profit (loss)	593,222	125,671	-	(3,608)	715,285
Net profit (loss)	(176,192)	17,059	(3,648,090)	(3,608)	(3,810,831)
Total assets	7,417,101	769,985	2,033,133	-	10,220,219
Total liabilities	1,065,673	567,361	11,034,444	-	12,667,478

16) COMMITMENTS AND CONTINGENCIES

In October 2020 and January 2021, the Company entered into insurance contracts with a term of 12 months. As at April 30, 2021, the minimum annual payments were estimated to be as follows:

	\$
Less than 1 year	111,080
1 - 2 years	-
2 - 3 years	-
> 3 years	-
Total commitments and contingencies	111,080

During the three months ended April 30, 2021, \$1,002 (April 30, 2020 – \$nil) was recorded as interest expense on the insurance contracts and was included as finance expense in the condensed consolidated interim statement of loss and comprehensive loss.

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

In May 2020, a lawsuit was filed against certain parties, including the Company, alleging that such parties were in breach of a lease agreement with the lessor. No estimate, at the date of the financial statements, could be made relating to any potential financial impact.

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17) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	April 30, 2021	January 31, 2021
Financial assets	\$	\$
Amortized cost		
Cash and cash equivalents	2,601,287	1,304,829
Trade and other receivables (exclude GST receivable)	124,193	139,632
Net investment in finance lease	333,035	369,362
Total financial assets	3,058,515	1,813,823
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	208,145	208,386
Financial liabilities at amortized cost		
Accounts payable and accrued liabilities (exclude GST & PST payable)	1,094,465	1,219,745
Due to related parties	119,049	147,817
Purchase liabilities	-	103,230
Lease liabilities	2,390,049	2,310,950
Long-term liabilities	765,493	740,519
Total financial liabilities	4,577,201	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) Currency risk: The Company does not operate outside of Canada and does not transact in foreign currency; therefore, the Company is not exposed to any inherent Currency risk.
- b) Interest rate risk: Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company's long-term liabilities with fixed rates of interest do not expose the Company to interest rate risk.
- c) 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.

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17) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity Risk

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

As at April 30, 2021, the Company had \$2,601,287 in cash and cash equivalents (January 31, 2021 – \$1,304,829). The Company is obligated to pay financial liabilities with total carrying amounts of \$2,215,553 in the next 12 months.

As at April 30, 2021, the Company's financial liabilities have contractual maturities as summarized below:

	Due within Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities (excluding GST & PST payable)	1,027,675	-	-	-	-	1,027,675
Due to related parties	119,049	-	-	-	-	119,049
Lease liability	998,142	1,001,645	497,510	163,632	193,600	2,854,529
Purchase Liability	-	-	-	-	-	-
Long-term liabilities	158,023	812,000	3,000	3,000	63,000	1,039,023
Total	2,302,889	1,813,645	500,510	166,632	256,600	5,040,276

Credit Risk

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

The following table summarizes the Company's aging of trade and other receivables (excluding GST receivable) and expected credit losses as at April 30, 2021:

	Trade and other receivables (excluding GST receivables)	Expected credit losses
	\$	\$
0 - 30 days	124,193	-
31 - 61 days	-	-
61 - 90 days	-	-
> 90 days	-	-
Total	124,193	-

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

Fair Value Measurement

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

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

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

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

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

	April 30, 2021			
Fair value through profit or loss	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Embedded derivative liability	-	-	208,145	208,145
	-	-	208,145	208,145

The Company estimates the fair value of embedded derivative liability at each reporting date using discounted cash flow model. The significant unobservable input used in the model was the interest rate of 0.29% (2020 – 0.29%).

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

18) SUBSEQUENT EVENTS

On May 28, 2021, the Company entered into a definitive agreement to acquire all issued and outstanding shares of Sculthorp SEO Inc. ("Cozy Cannabis") for a total purchase price of \$1,350,000, settled by \$850,000 in common shares of the Company and \$500,000 in cash, subject to a \$50,000 holdback and customary adjustments.