KIARO BRANDS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended April 30, 2020

The following management's discussion and analysis ("MD&A") of financial condition and results of operations of Kiaro Brands Inc. ("Kiaro" or the "Company") should be read in conjunction with the Company's condensed consolidated interim financial statements for the three months ended April 30, 2020, and the accompanying notes thereto (the "Financial Statements"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared as of August 13, 2020, pursuant to the disclosure requirements under National Instrument 51-102 - *Continuous Disclosure Obligations* of the Canadian Securities Administrators.

This MD&A contains forward-looking information within the meaning of Canadian securities laws, and the use of non-GAAP measures. Refer to "Cautionary Statement Regarding Forward-Looking Statements" included within this MD&A. This MD&A and the Company's annual audited consolidated financial statements have been filed in Canada on SEDAR at www.sedar.com. Additional information can also be found on the Company's website at www.kiaro.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain statements which may constitute "forward-looking information" and "forward-looking statements" within the meaning of Canadian securities law requirements (collectively, "forward-looking statements" or "FLS"). These forward-looking statements are made as of the date of this MD&A and the Company does not intend, and does not assume any obligation, to update these FLS, except as required under applicable securities legislation. FLS relate to future events or future performance and reflect Company management's expectations or beliefs regarding future events. In certain cases, FLS can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "intends" and "estimates". By their very nature FLS involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the FLS. The Company provides no assurance that FLS will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on FLS.

The Company's anticipated future operations are forward-looking in nature and, as a result, are subject to certain risks and uncertainties. Although the Company believes that the expectations reflected in these FLS are reasonable, undue reliance should not be placed on them as actual results may differ materially from the forward-looking statements. Such FLS are estimates reflecting the Company's best judgment based upon current information and involve a number of risks and uncertainties, and there can be no assurance that other factors will not affect the accuracy of such forward-looking statements.

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BUSINESS OVERVIEW

Kiaro Brands Inc. ("Kiaro" or the "Company") was formed on September 9, 2019, through the amalgamation of Aura Cannabis Inc. and Elora Capital Ltd., via an amalgamation agreement entered into on July 24, 2019. See "*Material Transactions and Developments - Amalgamation of Elora Capital Ltd. and Kiaro Brands Inc.*" for more details.

In addition to its retail operations, Kiaro, through its wholly owned subsidiary, National Cannabis Distribution Inc. ("NCD"), wholesales cannabis products to other retailers in Saskatchewan (see "*Material Transactions and Developments*").

In 2020, Kiaro changed its fiscal year-end from December 31 to January 31, which resulted in a thirteen-month period for the year ended 2020. As a result of the change in financial year-end, the comparative period for the quarter starting from February 1, 2020 to April 30, 2020 ("Q1 2021") is the four month period from January 1, 2019 to April 30, 2019 ("Q1 2020").

The head office of the Company is located at 300 - 110 East Cordova Street, Vancouver, British Columbia, Canada V6A 1K9.

DESCRIPTION OF BUSINESS

Kiaro is a cannabis retail company based in Vancouver, British Columbia and holds operating licences in three provincial jurisdictions: British Columbia, Saskatchewan, and Ontario. The foundations of Kiaro's business are core values, an operational focus on individual location profitability, carefully selected real estate with economically viable leases, multi-channel customer experience, staff training and engagement at store level, and project management excellence.

Values-Centric Organization

Kiaro operates with core values as the center of Kiaro's operational decision making. Accountability, courage, collaboration and creativity are the basis for hiring and training at all levels within the organization. These core values extend to not only how Kiaro operates internally but also how Kiaro builds partnerships within the extended cannabis community. Kiaro is an equal opportunity employer and as Kiaro grows, Kiaro intends to continue to find ways to demonstrate that belief in action.

OPERATIONAL HIGHLIGHTS IN THE 2020 FISCAL YEAR

Retail Operations

The Kiaro retail portfolio increased from four cannabis retail stores in January 2020 to five open and operating stores by April 30, 2020. In the period subsequent to April 30, 2020, Kiaro opened a sixth location in Vancouver on July 1, 2020. Kiaro anticipates opening its seventh location in Nanaimo, British Columbia in the fall of 2020. All of Kiaro's operating stores contributed positive cash flows to the Company within one to six months of its respective opening. In the first quarter of fiscal year 2021, Kiaro's average month over month revenue increases was 21% and product margins averaged 38%.

Retail operations generated $1,563,165 in revenue as at April 30, 2020. Retail gross profit for the same period was $593,222.

British Columbia

Kiaro opened one new location in the first quarter of fiscal year 2021 and one new location in the subsequent period. Kiaro's Port Moody location, its fifth location to open, is between Coquitlam and Burnaby, two municipalities that currently have no framework for regulated cannabis retail, allowing Kiaro to capture a wider consumer base than the population of Port Moody alone. The Company successfully completed the build out of its Port Moody location on time and under budget, despite opening during the COVID-19 pandemic on March 20, 2020. Kiaro's sixth store located in Vancouver, British Columbia opened on July 1, 2020, in the historic Commercial Drive neighborhood.

Saskatchewan

In February 2019, Kiaro launched its e-commerce platform for customers across Saskatchewan. This e-commerce platform was built on the Shopify Plus platform and allows customers to choose last mile delivery in the Saskatoon area through Pineapple Express Delivery or standard shipping through Purolator to any home address in Saskatchewan. Kiaro intends to continue its e-commerce offerings and expansion as more jurisdictions in which the Company operates permit private online cannabis sales, and enforcement efforts increase against unregulated online cannabis sales.

Ontario

In January 2020, when the Alcohol and Gaming Commission of Ontario repealed the lottery process and began accepting applications for Retail Operator Licenses ("ROL"), Kiaro applied and was awarded a ROL on June 18, 2020. With this approval, Kiaro is currently evaluating opportunities to open a cannabis retail store in Ontario to continue to grow its retail network in Canada.

COVID-19

As COVID-19 has changed the retail shopping experience, Kiaro modified its business practices to ensure a safe environment for customers and employees. Kiaro modified its in-store experience and introduced a reserve online and pick up in store option for consumers. Kiaro also eliminated all unnecessary in-store touch points and is following British Columbia and Saskatchewan Health Authority and WorkSafe guidelines. Kiaro expects to continue to monitor direction given by applicable health authorities and adjust its retail experience accordingly.

Wholesale Operations

Saskatchewan's geographic size versus its population density presents certain retail challenges to the Company. In order to meet this challenge, the Company, through its subsidiary NCD, is able to access and deliver product from a diverse range of sources and at competitive price points.

Wholesale operations generated $1,103,546 in revenue (exclusive of intercompany revenue) as at April 30, 2020, with corresponding gross profit of $125,671. In the first quarter of fiscal year 2021, NCD achieved substantial revenue increases and for the period from February 1, 2020 to April 30, 2020, average monthly revenue growth was 24%.

In August 2019, NCD made a bulk purchase of CBD focused products in pre-roll and flower, with the expectation of stronger demand for CBD dried cannabis products. Sales to retailers were below expectations and as new Licensed Producers were added to the NCD product catalogue, this inventory began to age. In the first quarter of fiscal year 2021, from February 2020 to April 2020, this product was discounted. This product has now been completely liquidated. NCD has made improvements to supply chain reporting to mitigate future challenges with aged inventory and has now increased gross margins.

THREE MONTHS ENDED APRIL 30, 2020 HIGHLIGHTS

- Kiaro opened a total of two new cannabis retail stores: one located in Port Moody on March 30, 2020, and a second one located in Vancouver (Commercial Drive) in the period subsequent to April 30, 2020 on July 1, 2020;
- Retail revenue of $1,563,165, ($493,654 – January 1 to April 30, 2019) and gross profit of $593,222 ($164,532 – January 1 to April 30, 2019)
- Wholesale revenue of $1,103,546 ($7,027 – January 1 to April 30, 2019) and gross profit of $125,671 ($134 – January 1 to April 30, 2019);
- Expansion of product offering to include more edibles, cannabis extract products, and beverages; and
- Hosting of virtual "420" event, "Virtual Vibe", with 96 participants attending and 10 industry partners presenting at the event.

FUTURE DEVELOPMENTS

Retail

Kiaro's seventh store located in Nanaimo, British Columbia is currently scheduled to open in early fall of 2020. In terms of future expansion, the Company is currently evaluating opportunities to open one additional store in either British Columbia or Ontario in the fourth quarter of 2021 or the first quarter of 2022.

The Company expects all operational cannabis stores to contribute positive cash flow within one to six months of opening.

Wholesale

In 2020, the SLGA altered the provincial regulations to allow new proponents to apply for cannabis retail permits in Saskatchewan. NCD plans to expand its customer base of retailers as new permits are issued over the next 12 to 18 months and continues to seek advantageous partnerships with Licensed Producers to expand its product offering.

NCD expects higher gross margins in the 2021 fiscal year now that the aged inventory has been discounted and sold, and with a continued focus on reasonable margins, unique product offerings and fair pricing to retailers.

KEY DEVELOPMENTS FOR THE THREE MONTHS ENDED APRIL 30, 2020

On February 1, 2020, the Company entered into an agreement with a third party for a convertible debenture in the amount of $100,000. The convertible debenture bears interest at eight percent per annum and is to mature on February 1, 2022. The lender may, at any time, convert all or any 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.

In February 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 April 30, 2020, the balance of the loan was $358,166, which included an interest accrual of $3,985.

In March 2020, the Company settled a promissory note in the amount of $600,000, which beared interest of ten percent per annum, for $613,644.

In March 2020, the Company liquidated all class 2 common shares it held in Tilray Inc. 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.

In March 2020, the Company provided a termination notice for the lease of a property located in the District of North Vancouver (the “North Vancouver Lease”). As at June 30, 2020, the North Vancouver Lease has been terminated.

On April 7, 2020, one of the promissory notes with a face value of $100,000 and a compounding interest rate of 14%, was settled for $104,181, which includes accrued interest of $4,181.

In April 2020, the Company sublet a portion of a leased property located in Victoria, British Columbia, which resulted in a partial derecognition of the right-of-use asset and an increase in net investment in leases.

KEY DEVELOPMENTS SUBSEQUENT TO APRIL 30, 2020

On May 11, 2020, the Company closed a non-brokered private placement of units (“Unit”) consisting of secured convertible debentures (“Debentures”) and common share purchase warrants (“May 11 Warrants”) for gross proceeds of $1,000,000. Each Unit consists of one Debenture and 5,000 May 11 Warrants, at a price per Unit of $1,000. The Debentures were secured against the assets of the Company subject to subordination to third party lenders providing the Company operational financing. Upon the passing of resolutions approving the creation and special rights and restrictions attached to the preferred shares of the Company (the “Preferred Shares Resolution”), the principal and any accrued and unpaid interest on the Debentures will automatically convert into preferred shares at a deemed price of $0.10 per preferred share. At the shareholders meeting on July 7, 2020, the shareholders of the Company approved the Preferred Shares Resolution, and as such, the Debentures convered into preferred shares of the Company. The Debentures did not accrue interest up to the date of the shareholders meeting. In addition, the preferred shares will be further convertible into common shares (subject to proportional adjustments for stock splits, stock dividends and alike) at any time up to the date of listing of the Company’s common shares on any recognized North American securities exchange or stock market, including the Toronto Stock Exchange, the TSX Venture Exchange (the “Exchange”), or the Canadian Securities Exchange the (“Go-Public Event”). At the date of a Go-Public Event, any non-converted preferred shares will automatically convert into common shares at the applicable conversion ratio.

The May 11 Warrants may not be exercised by its holder until after the earlier of: (A) the Company delivering written notice to the holder permitting such exercise; and (B) October 31, 2020, if the Company does not complete a Go-Public Event by October 31, 2020. Should the Company not deliver notice permitting exercise and the Company completes a Go-Public Event prior to October 31, 2020, the holder of the May 11 Warrants shall not have any opportunity to exercise the May 11 Warrants. As at April 30, 2020, the Company had received $217,000 of refundable deposits towards the non-brokered private placement of Units.

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

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

In May 2020, a lawsuit was filed against certain parties, including the Company, alleging that such parties were in breach of a lease agreement with the lessor. The events in question of the breach relate to a period subsequent to April 30, 2020, thus no adjustments have been made in the financial statements. No estimate, at the date of the financial statements, could be made relating to any potential financial impact, if any, to the lessor.

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

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

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

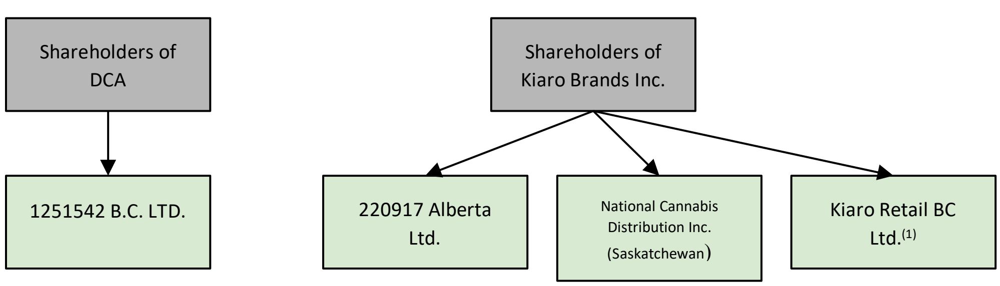
In July 2020, the Company entered into a loan agreement in the amount of $225,000 with DCA relating to the Proposed Transaction. The loan has a term of one year and bears interest at four percent and was fully received by the Company upon approval of the Exchange.

MATERIAL TRANSACTIONS AND DEVELOPMENTS

Kiaro Brands Inc. and DCA

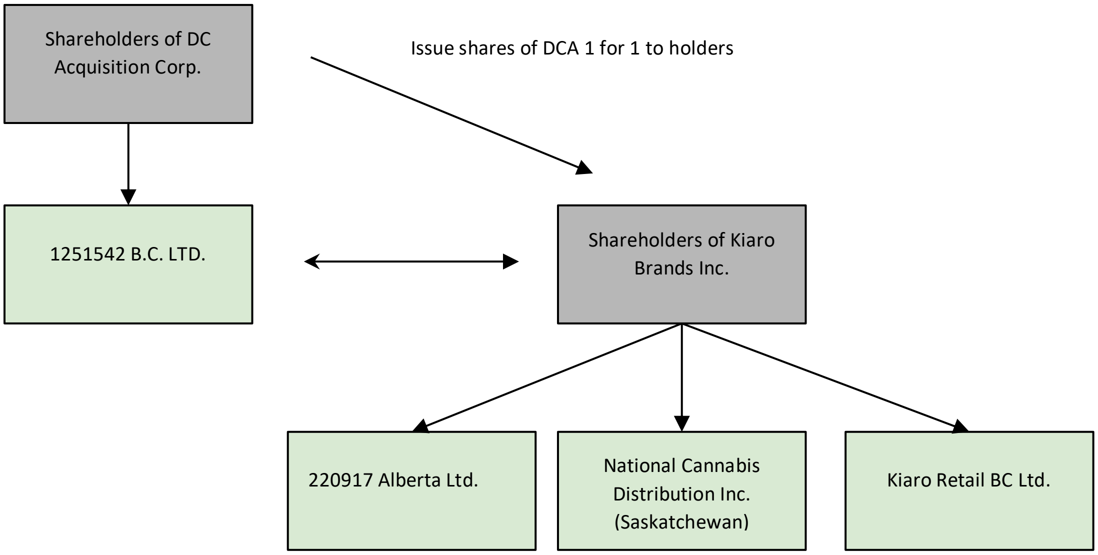
DCA, Kiaro and 1251542 B.C. LTD. ("DCA Subco") entered into the Merger Agreement on June 9, 2020, which sets out the principal terms and conditions upon which DCA and Kiaro intends to complete the Proposed Transaction. Pursuant to the Merger Agreement, DCA Subco and Kiaro shall amalgamate and holders all of the issued and outstanding shares in the capital of Kiaro will be issued an equal number of common shares in the capital of DCA ("DCA Share"). Immediately prior to effecting the above share exchange, DCA shall complete 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 following is the organizational structure of prior to the Amalgamation:

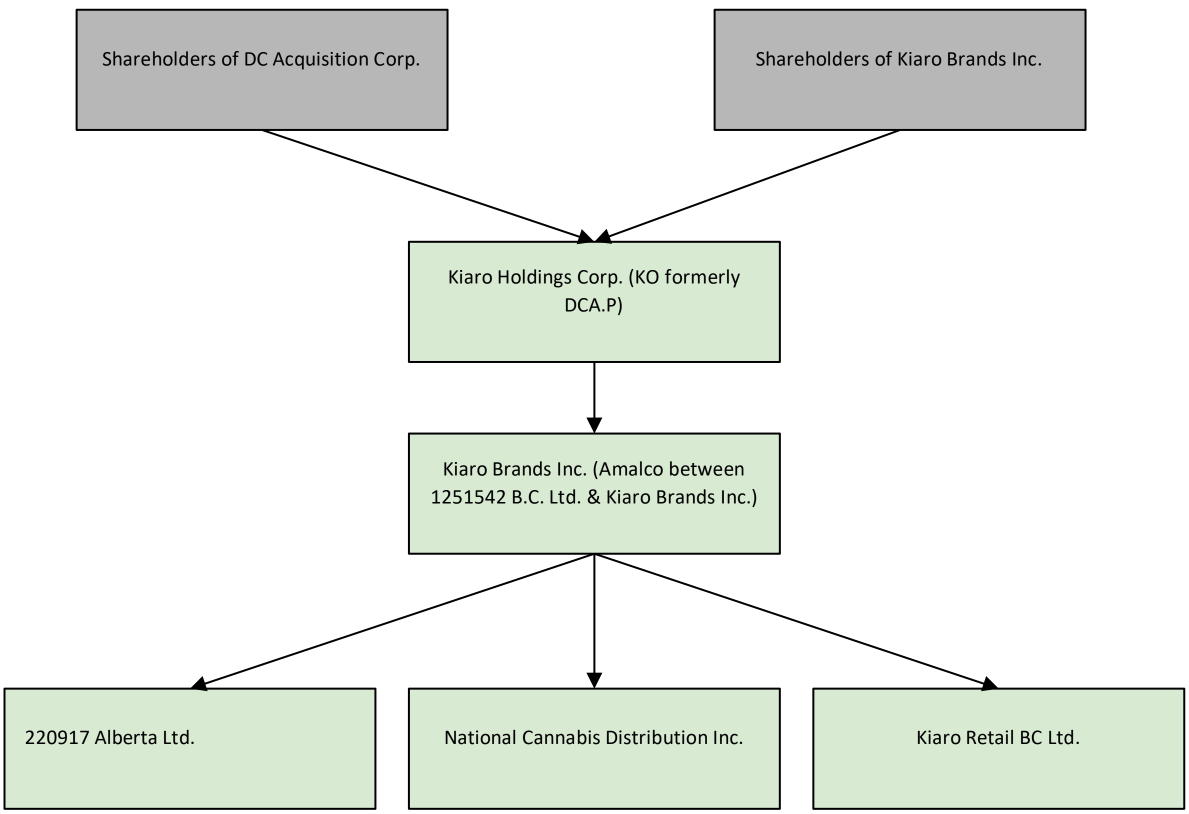


(1) On October 10, 2019, the Company incorporated the wholly owned subsidiary, Kiaro Retail BC Ltd., for the purposes of holding BC cannabis retail licences. This transfer of licence has not been completed as of the date of this MD&A.

The following is the organizational structure of the 3-corner Amalgamation:



The following is the Post-Amalgamation organizational structure:



Upon completion of this transaction, shareholders of Kiaro and shareholders of DCA will become shareholders of the Resulting Issuer. It is currently expected that a material amount of outstanding convertible debentures of Kiaro ("Kiaro Debentures") will be converted into common shares of the Company due to the favourable conversion terms underlying such Kiaro Debentures. All securities entitling holders to acquire common shares of the Company outstanding immediately prior to the consummation of the Proposed Transaction will also be exchanged for equivalent securities of the Resulting Issuer on a one for one basis. Replacement Resulting

Issuer options to be issued to current Kiaro option holders are expected to be governed by the current DCA option plan.

SELECT FINANCIAL INFORMATION

The following selected financial data has been prepared in accordance with IFRS and should be read in conjunction with the Company's audited consolidated financial statements for the year ended January 31, 2020, and the accompanying notes thereto. All dollar amounts are in Canadian dollars.

	Three Months Ended April 30, 2020	Four Months Ended April 30, 2019	Thirteen Months Ended January 31, 2020
	$	$	$
Financial Results			
Revenue	2,666,711	500,681	5,171,836
Gross Profit	715,285	163,666	1,341,965
Loss and Comprehensive Loss	(3,810,831)	(2,125,585)	(12,503,250)
Loss per Share, basic and diluted	(0.04)	(0.11)	(0.25)
Financial Position			
Total Assets	10,220,219		13,992,304
Non-Current Liabilities	9,392,794		9,712,063

For more information relating to factors that have caused period to period variation, see "*Key Developments for the Year Ended January 31, 2020*" and "*Material Transactions and Developments*".

DISCUSSION OF FINANCIAL RESULTS

Revenue for Q1 2021, totaled $2,666,711, in comparison to $500,681 for Q1 2020. The increase in revenue in comparison to the prior year is due to the opening of new retail locations, the sale of recreational cannabis within retail locations, and the wholesale cannabis business as a result of acquisition subsequent to Q1 2020.

Cost of sales for the three months ended April 30, 2020, totaled $1,951,426 (Q1 2020 - $337,015).

Operating expenses for the three months ended April 30, 2020, totaled $1,918,486 (Q1 2020 – $2,191,067). The overall decrease in operating expenses for the three months ended April 30, 2020, is mostly due to a reduction of: (i) salaries and employee benefits to $746,695 (Q1 2020 - $896,129), (ii) marketing expense to $34,483 (Q1 2020 - $235,659), (iii) consulting fees to $53,245 (Q1 2020 - $213,657), (iv) office and administrative expenses to $147,418 (Q1 2020 - $238,355), (v) travel expenses to $5,777 (Q1 2020 - $57,318), and (vi) maintenance expenses to $35,907 (Q1 2020 - $75,358), offset partially by an increase of share based compensation to $396,081 (Q1 2020 - $44,208) and professional fees to $184,341 (Q1 2020 - $130,694). The decrease in operating expenses during Q1 2020 is due to the Company increasing efficiencies in its operations and controlling overhead spending.

In Q1 2021, Kiaro had other expenses of $(2,607,630), in comparison to $(98,184) in Q1 2020. During the three months ended April 30, 2020, other expenses mostly comprised of a realized loss of marketable securities of $(2,105,548) (Q1 2020 - $Nil) due to the loss on sale of shares in Tilray Inc., which experienced a declining share price, finance expense of $(463,572) (Q1 2020 – ($114,845)) due to the increase of accretion expense on promissory notes and convertible debentures issued in the prior year, and lease termination and loss on sub-lease of $(53,422) (Q1 2020 - $Nil) due to a termination notice given in March, 2020 in relation to a potential store located in the District of North Vancouver, British Columbia.

DISCUSSION OF FINANCIAL POSITION

For the period ended April 30, 2020, assets primarily comprised of lease and right of use assets of $4,463,593 (Q1 2020 - $4,944,646), cash and cash equivalents $1,264,985 (Q1 2020 - $1,418,764), and property and equipment of $1,845,041 (Q1 2020 - $1,749,072).

In Q1 2021, liabilities primarily comprised of long-term liabilities of $6,026,773 (Q1 2020 - $5,836,711), long-term portion of lease liability of $2,033,238 (Q1 2020 - $2,487,121), an embedded derivative liability of $1,332,783 (Q1 – 2020 - $1,285,000), and accounts payable and accrued liabilities of $1,522,839 (Q1 2020 - $1,462,427).

For information relating risks and uncertainties of Kiaro's operations, see "*Risk Factors*" and "*Fair Value Measurement and Financial Instrument*".

SEGMENT INFORMATION

Throughout the period ended April 30, 2020, the Company operated in two segments;

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

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

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

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

The wholesale cannabis business was acquired Q1 2020 and sales begun in Q2 2020, and has seen significant growth since then.

The retail cannabis segment has continued to grow significantly since Q1 2020 with the opening of four new stores since last year at the end of the same quarter. In addition, the Company opened one additional store in the following quarter (Q2 2021).

Corporate represents non-operating costs incurred at head office which cannot be directly attributable to the operating segments. A significant portion of the corporate operating expenses is made up of salaries and employee benefits, consulting, office and administration, professional fees and share based payments. Other expenses include finance expenses, impairment of long-lived assets, lease termination loss and loss on sub-lease and the change in fair value of marketable securities.

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2020, the Company had working capital of $(561,614) (January 31, 2020 - $2,815,846).

These condensed consolidated interim financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company is in the expansion phase by opening and acquiring cannabis retail locations throughout Canada. While these condensed consolidated interim financial statements have been prepared on a going concern basis, the Company continues to remain dependent on its ability to obtain sufficient funding to sustain operations and continue with its current expansion projects. While the Company has been successful in raising financing in the past, there can be no assurance that it will be able to do so in the future. Several alternatives are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. The Company has incurred a net loss of $3,810,831 and negative cash flows from operations and as at April 30, 2020 has an accumulated deficit of $18,933,213. These factors indicate a material uncertainty that may cast significant doubt about the Company being able to continue as a going concern.

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

The Company’s expected cash resources are sufficient to meet its short-term needs, including maintaining inventory to meet customers’ needs. Management estimates that the current cash position and future cash flows from new equity financings and/or related party loans should be sufficient for the Company to carry out its anticipated costs of operations through 2020. There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its business objectives. There is no legal or practical restriction on the ability of subsidiaries to transfer funds to Kiaro.

In June 2020, the Company had capital expenditures in the amount of $145,000 towards the build out of its sixth retail cannabis store located in Vancouver, British Columbia. In Q3 2021, the build out of its seveth retail cannabis store located in Nanaimo, British Columbia is expected to incur $200,000 in capital expenditures.

Funds allocated to capital expenditures will be used from the proceeds the financing closed May 11, 2020 ($1,000,000) and a $225,00 cash advancement relating to the DCA amalgamation (See “*Key Developments Subsequent to April 30, 2020*”).

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary for the Company to achieve its business objectives.

See “*Fair Value Measurement and Financial Instruments – Liquidity Risk*”, for additional information regarding market risks and how they relate to the Company.

OFF-BALANCE SHEET TRANSACTIONS

The Company has not entered into any significant off-balance sheet arrangements or commitments.

RELATED PARTY TRANSACTIONS

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

Compensation for key management personnel, including the Company's officers and board of directors, was as follows for the periods:

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

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

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

During the period ended April 30, 2020, the Company had entered an unsecured $500,000 short-term loan with the CEO of the Company. The loan bears interest of prime plus one percent per annum and is payable on demand. As of April 30, 2020, the balance of the loan was $358,166, which included an interest accrual of $8,166.

During the period ended April 30, 2020, the Company repaid a promissory note issued to a company controlled by the CFO totaling $104,180 including accrued interest.

PROPOSED TRANSACTION

The Company had no proposed transactions, other than the Proposed Transaction, as discussed in the section titled "*Material Transactions and Developments*".

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized during the period in which the estimate is revised if the revision affects only that period or during the period of the revision and further periods if the review affects both current and future periods.

The areas involving a higher degree of judgment of complexity or where assumptions and estimates are significant to the financial statements are as follows:

Business combinations

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

Useful lives of property and equipment and impairment

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

Goodwill and intangible assets

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

Fair value of financial instruments

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

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

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

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

Share-based compensation and warrants

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

Income taxes

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

Inventory

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

For more information on the Company's accounting policies and key estimates, refer to the notes disclosures in the annual consolidated financial statements for the year ended January 31, 2020.

FAIR VALUE MEASUREMENT AND FINANCIAL INSTRUMENTS

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

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

Financial Risk Management Objectives and Policies

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

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

Market risk

a) Currency risk

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

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company's long-term liabilities with fixed rates of interest do not expose the Company to interest rate risk. The Company's long-term liabilities with an interest rate of prime rate plus a margin will be affected by fluctuations in the Canadian prime interest rate, which can have an impact on the interest expense recognized. The Company's long-term liabilities have fixed interest rates, and therefore the Company is not exposed to this risk

c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is currently not subject to price risk. In the prior year, the Company's investments in the marketable securities are susceptible to price risk arising from uncertainties about their future values. The fair value of these investments is based on quoted market prices which the shares of the investments can be exchanged for.

Liquidity Risk

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

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

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

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

	Due within					January 31, 2020
	Less than 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
Accounts payable and accrued liabilities (excluding PST payable)	1,462,427	-	-	-	-	1,462,427
Due to related parties	18,861	-	-	-	-	18,861
Lease liability	683,979	781,753	908,122	624,239	173,007	3,171,100
Embedded derivative liability	-	1,285,000	-	-	-	1,285,000
Purchase Liability	370,180	103,230	-	-	-	473,410
Long-term liabilities	694,055	5,836,712	-	-	-	6,530,767
Total	3,229,502	8,006,695	908,122	624,239	173,007	12,941,565

Credit Risk

Credit risk arises from cash and cash equivalents held with banks, trade and other receivable (excluding GST receivable), and loan receivable. The Company does not have a significant concentration of credit risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash and cash equivalents are held by reputable financial institutions. The Company is not aware of any material collection issues. The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. Trade receivables are written off when there is no reasonable expectation of recovery. The following table summarizes the Company's aging of trade and other receivables (excluding GST receivable) and expected credit losses as at April 30, 2020:

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

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

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

Fair value measurement

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

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

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

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

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

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

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

SUMMARY OF OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of common shares without a par value. The following share capital data is current as of the date of the MD&A:

Securities	**Balance**
Issued and outstanding common shares	97,993,708
Issued and outstanding preferred shares	10,000,000
Stock options	5,557,500
Warrants	13,331,560
Convertible debentures	51,010,693

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The information provided in this report is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

RISK FACTORS

Market Risk for Securities

The Company's common shares have not been listed for trading on a stock exchange. The Company has signed a Merger Agreement with DCA, however there can be no certainty that the Qualifying Transaction will be completed. And, even if completed, there can be no assurance that an active trading market for the Company's common shares will be established and sustained. Upon a listing, the market price for the Company's common shares could be subject to wide fluctuations. Factors such as government regulation, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of its securities. The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to the operating performance of particular companies.

Completion of the Qualifying Transaction is subject to a number of conditions, certain of which may be outside the control of both DCA and the Company. There can be no assurance, nor can DCA or the Company provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied or that the Qualifying Transaction will be completed as currently contemplated or at all. The requirement to take certain actions or to agree to certain conditions to satisfy such requirements or obtain any such approvals may have a material adverse effect on the business and affairs of the Resulting Issuer or the trading price of the common shares of the Resulting Issuer ("Resulting Issuer Shares").

There is currently no market through which the Resulting Issuer Shares may be sold and there is no assurance that the Resulting Issuer Shares will be admitted to a listing or qualified for distribution in Canada or any other jurisdiction in the event that the Qualifying Transaction is not completed.

Negative Operating Cash Flows

As the Company is at the early stage start up stage it may continue to have negative operating cash flows. Without the injection of further capital and the development of revenue streams from its business, the Company may continue to have negative operating cash flows until it can realize stable cash flow from operations.

Risks Related as a Going Concern

The ability of the Company to continue as a going concern is uncertain and dependent upon its ability to achieve profitable operations, obtain additional capital and receive continued support from its shareholders. Management of the Company will have to raise capital through private placements or debt financing and proposes to continue to do so through future private placements and offerings. The outcome of these matters cannot be predicted at this time.

Uninsured or Uninsurable Risk

The Company may become subject to liability for risks against which it cannot insure or against which it may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for its usual business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on its financial position and operations.

Conflicts of Interest Risk

Certain of the Company's directors and officers are also directors or advisors in other companies. Situations may arise in connection with potential acquisitions or opportunities where the other interests of these directors and officers conflict with or diverge from the Company's interests. In accordance with the BCBCA, directors who have a material interest in any person who is a party to a material contract or a proposed material contract are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the Company's best interests. However, in conflict of interest situations, the Company's directors and officers may owe the same duty to another company and will need to balance their competing interests with their duties to us.

Circumstances (including with respect to future corporate opportunities) may arise that may be resolved in a manner that is unfavourable to the Company.

Key Personnel Risk

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management as well as certain consultants (the "Key Personnel"). The Company's future success depends on its continuing ability to attract, develop, motivate, and retain the Key Personnel. Qualified individuals for Key Personnel positions are in high demand, and the Company may incur significant costs to attract and retain them. The loss of the services of Key Personnel, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on its ability to execute its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. While employment and consulting agreements are customarily used as a primary method of retaining the services of Key Personnel, these agreements cannot assure the continued services of such individuals and consultants.

Difficulty to Forecast

The Company will need to rely largely on its own market research to forecast industry statistics as detailed forecasts are not generally obtainable, if obtainable at all, from other sources at this early stage of the adult-use cannabis industry. Failure in the demand for the adult-use cannabis products as a result of competition, technological change, change in the regulatory or legal landscape or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Global Economy Risk

The ongoing economic slowdown and downturn of global capital markets has generally made the raising of capital by equity or debt financing more difficult. In the event that its operations are affected by the economic context should interest rates, inflation or the unemployment level reach levels that influence consumer trends and spending and, consequently, impact sales and profitability, the Company may be dependent upon the capital markets to raise additional financing in the future. If uncertain market conditions persist, the Company's ability to raise capital could be jeopardized, which could have an adverse impact on its operations and ability to expand or operate through unanticipated expenses and delays.

Dividend Risk

The Company has not paid dividends in the past and do not anticipate paying dividends in the near future. The Company expect to retain its earnings to finance further growth and, when appropriate, retire debt.

Share Price Volatility Risk

It is anticipated that the Company's common shares will be listed for trading on the Exchange. As such, external factors outside of the Company's control, such as government regulation, commodity pricing, interest rates, share price movements of peer companies and competitors, as well as overall market movements, may have a significant impact on the market price of its common shares. Global stock markets, including the Exchange, have from time to time experienced extreme price and volume fluctuations that have often been unrelated to the operations of particular companies. There can be no assurance that an active or liquid market will develop or be sustained for the common shares.

Licences and Permits

The operations of the Company requires licences and permits from various governmental authorities. The Company understands that the amalgamation with DCA (the "Amalgamation") will not require any prior regulatory approval, but if the cannabis regulators take a different view, it may be required to make submissions to such regulators in support of the Amalgamation and the Company cannot predict with any certainty the ultimate success of such submissions. The Company currently has all permits and licences that it believes are necessary to carry on its current business operation with the intention of obtaining additional licences and permits for additional operations. The Company may require additional licences or permits in the future to achieve its intended operations and there can be no assurance that it will be able to obtain all such additional licences and permits. In addition, there can be no assurance that any existing licence or permit will be renewed if and when required or that such existing licences and permits will not be revoked.

The Company may be required to obtain or renew further government permits and licences for its operations. Obtaining, amending or renewing the necessary governmental permits and licences can be a time-consuming process, potentially involving numerous regulatory agencies, and involving public hearings and costly undertakings on its part. The duration and success of the Company's efforts to obtain, amend and renew permits and licences are contingent upon many variables not within its control, including the interpretation of and amendments to applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licences that are necessary to its operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Company. To the extent necessary permits or licences are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on its business, financial condition, results of operations or prospects.

The Company is dependent on suppliers and distributors being able to provide certain products. The type of supplier or distributor will vary amongst the provinces. In some provinces, independent suppliers are allowed to operate provided that they have the appropriate licences, while in other provinces the governing body administers the entirety of the wholesale and distribution operations in the province. In those provinces that allow independent licensed suppliers to operate, the Company relies on the suppliers' licences, or ability to obtain additional licences, which are subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of these licences or any failure to obtain or maintain such licences could have a material adverse impact on the business, financial condition and operating results of the Company. There can be no guarantee that the provincial regulator will issue, extend or renew these licences or, if issued, extended or renewed, that they will be issued, extended or renewed on terms that are favourable to its suppliers and the Company. Should the provincial cannabis regulators not issue, extend or renew the licences or should they issue or renew the licences on terms that are less favourable to such supplier and the Company than anticipated, the business, financial condition and results of the operations of the Company could be materially adversely affected.

Changes in Laws, Regulations and Guidelines

The Cannabis Act came into force on October 17, 2018, and was subsequently amended on October 17, 2019. However, uncertainty remains with respect to the implementation of the Cannabis Act and federal regulations thereunder, as well as the various provincial and territorial regimes governing the distribution and sale of cannabis for adult-use purposes. The implementation of the legislative framework pertaining to the Canadian cannabis market remains everchanging and uncertain. The impact of new laws, regulations and guidelines on the business of the Company, including increased costs of compliance and other potential risks, cannot be predicted, and accordingly, it may experience adverse effects.

Compliance with Laws

The Company's and many of its suppliers' operations are subjected to various laws, regulations, and guidelines. The Company endeavours to comply with all applicable laws, regulations, and guidelines. However, there is a risk that its interpretation of laws, regulations and guidelines, including, but not limited to the Cannabis Act, the regulations thereunder, applicable provincial licensing rules and regulations, and applicable stock exchange rules and regulations, may differ from those of others, and the Company and its suppliers' operations may not be in compliance with such laws, regulations and guidelines. In addition, achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and, where necessary, obtaining regulatory approvals. The impact of regulatory compliance regimes, any delays in obtaining, or failure to obtain regulatory approvals required by the Company may significantly delay or impact the development of its business and operations, and could have a material adverse effect on the business, results of operations and financial condition of the Company. Any potential non-compliance could cause the business, financial condition and results of the operations of the Company to be adversely affected. Further, any amendment to or replacement of the Cannabis Act or other applicable rules and regulations governing the activities of the Company and its suppliers may cause adverse effects to its operations. The risks to the business of the Company or its suppliers associated with the decision to amend or replace the Cannabis Act and subsequent regulatory changes, could reduce the potential customers of the Company and could materially and adversely affect the business, financial condition and results of operations of the Company.

It is unclear how certain regulatory bodies will interpret commercial agreements with respect to licensed retail cannabis operations. The Company intends to enter into commercial agreements in compliance with all applicable law, however provincial regulators are continuing to provide guidance on how cannabis retailers should interpret certain provincial rules and regulations. In the event provincial regulators indicate that they shall interpret certain rules and regulations in a manner inconsistent with that of cannabis retailers, including, but not limited to the Company, this could result in it being unable to enter into certain commercial agreements or provide certain services which could have a material adverse effect on the business, results or operations and financial condition of the Company.

The Company incurs ongoing costs and obligations related to regulatory compliance. Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures or remedial actions. Parties may be liable for civil or criminal fines or penalties imposed for violations of applicable laws or regulations. Amendments to current laws, regulations and permitting requirements, or more stringent application of existing laws or regulations, may have a material adverse impact on the Company or its suppliers, resulting in increased capital expenditures or production costs, reduced levels of cannabis production or abandonment or delays in the development of facilities which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules could result in an increase in its taxes, or other governmental charges, duties or impositions. No assurance can be given that new tax laws, regulations or rules will not be enacted or that existing tax laws, regulations or rules will not be changed, interpreted or applied in a manner which could result in its profits being subject to additional taxation or which could otherwise have a material adverse effect on the Company.

Due to the nature of its operations, various legal and tax matters may be outstanding from time to time. If the Company is unable to resolve any of these matters favourably, there may be a material adverse effect on the Company. There are also risks to the business of the Company represented by court rulings or legislative changes.

Risks Relating to its Suppliers

In addition, the risk factors that may impact the business, operations and financial condition of the Company and its suppliers noted above, the risk factors contemplated herein may directly impact the business, operations and financial condition of its suppliers and, accordingly, may have an indirect material adverse effect on the Company.

Reliance on Supplier Facilities

The facilities of its suppliers could be subject to adverse changes or developments, including but not limited to a breach of security, which could have a material and adverse effect on the Company’s business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by governmental authorities, could also have an impact on its suppliers’ ability to continue operating under their licences or the prospect of renewing their licences, which may have an adverse effect on the Company.

Competition

The private retail cannabis industry is very competitive, with the most significant competition from other entities with multiple licences in multiple jurisdictions, which may have greater resources or longer operating histories. The Company believes that its competition can be broadly grouped into four categories: (a) large vertically integrated competitors; (b) competitors with existing retail operations; (c) government retailers; and (d) the unregulated market.

- Vertically Integrated Competitors are generally licensed producers that are able to produce the products sold at retail stores and may have significant scale and international operations. These competitors are generally well capitalized and have an established operating history in Canada; however, they are also subjected to regulatory operating restrictions in certain markets and thus significantly limits their ability to compete directly with the Company in those markets. Examples of such competitors include, but are not limited to: Canopy Growth Corp. (through its retail brands “Tokyo Smoke” and “Tweed”); DecibelNational Access Cannabis (under its Meta and NewLeaf Cannabis brands); and Choom Holdings Inc. (which is a retail brand with a number of licensed producer subsidiaries and medical clinic holdings).

- Existing retailers are competitors that generally have an existing business with some kind of retail footprint and are potentially entering the private retail cannabis market as a growth opportunity. These competitors are also generally well capitalized with an established retail operating history in Canada. However, as they are also operating other non-cannabis businesses, the Company believes that its sole focus on cannabis will allow it to continue to effectively compete with such entities. Examples of competitors with an existing retail footprint include, but are not limited to: Alcanna Inc. (under its Nova Cannabis brand) that principally operates a large number of private liquor stores; Aldershot Resources Ltd. (Solo Growth Corp.) that also operates a number of private liquor stores; National Access Cannabis (under its Meta and New Leaf Cannabis brands) that also operates a number of medical cannabis referral clinics; and Inner Spirit Holdings Ltd. that also operates a number of retail watch kiosks under the “WatchIt” brand.

- Government Competition in the form of government wholesalers that sell directly to consumers online, such as the Ontario Cannabis Store also represents competition to the Company's business. In British Columbia, the Company will face additional direct competition from the government in the form of government-owned retail.

- Unregulated market still represents a significant competitor to the Company's business. Management of the Company believes that until there is sufficient private retail coverage, methods of engaging potential customers and types of products legally available to consumers, competition from the unregulated market will remain significant, both brick and mortar and ecommerce/delivery options.

Cannabis Prices

The price of the common shares of the Company and the Company's financial results may be significantly and adversely affected by a decline in the price of cannabis. There is currently no established market price for cannabis, and the price of cannabis is affected by numerous factors beyond the Company's control. Any price decline may have a material adverse effect on the Company.

The profitability of the Company is directly related to the price of cannabis. The Company's operating income is sensitive to changes in the price of cannabis and the overall condition of the cannabis industry, as its operating income will be derived in part from royalty payments or cannabis streams.

Reputational Risk

The Company believes that the cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the cannabis stocked at retail locations of the Company. Consumer perception can be significantly influenced by scientific research or findings, regulatory proceedings, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand within the cannabis industry, which could affect the business, results of operations, financial condition and cash flows of the Company. The Company's dependence on consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

In addition, the parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. For example, the Company could receive a notification from a banker advising it that they would no longer maintain banking relationships with those in the cannabis industry. The Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Customer Acquisitions

The Company's success depends, in part, on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain customers, including but not limited to the successful implementation of marketing plans and the continued growth in the aggregate number of customers. The failure to acquire and retain customers would have a material adverse effect on the Company's business, operating results and financial condition. Constraints on marketing products the development of the Company's businesses and operating results may be hindered by applicable restrictions on sales and marketing. The Canadian federal regulatory regime requires plain packaging of products, and has further prohibitions with respect to marketing, including prohibitions on testimonials, lifestyle branding and packaging that is appealing to youth.

The regulatory environment in Canada and abroad limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected, which could have a materially adverse effect on the Company's business, financial condition and operating results.

Risks Inherent in an Agricultural Business

The business of certain of the Company's suppliers involves the growing of cannabis. Cannabis is an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Weather conditions, which can vary substantially from year to year, have a significant impact on the size and quality of the harvest of the crops processed and sold by the Company's suppliers. Significant fluctuations in the total harvest will impact the Company's ability to operate. High degrees of quality variance can also affect the ability of the Company to obtain and retain customers. There can be no assurance that natural elements will not have a material adverse effect on the production of products by the Company's supplier, which may have a material adverse effect on the Company.

Wholesale Price Volatility

The cannabis industry is a margin-based business in which gross profits depend on the excess of sales prices over costs. Consequently, profitability is sensitive to fluctuations in wholesale and retail prices caused by changes in supply (which itself depends on other factors such as weather, fuel, equipment and labour costs, shipping costs, economic situation and demand), taxes, government programs and policies for the cannabis industry (including price controls and wholesale price restrictions that may be imposed by provincial agencies responsible for the sale of cannabis), and other market conditions, all of which are factors beyond the control of the Company.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the products produced by its suppliers are recalled due to an alleged product defect or for any other reason, the Company may be required to incur unexpected expenses relating to the recall, such as finding a suitable alternative to the recalled product, and potentially any legal proceedings that might arise in connection with the recall. In addition, a product recall may require significant management attention. There can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by its suppliers were subject to recall, the image of that product, the supplier and the Company's reputation as a carrier of that product could be harmed. A recall for any of the foregoing reasons could lead to decreased demand and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the operations by regulatory agencies, requiring further management attention and potential legal fees and other expenses, which may also have an adverse effect on the Company.

Product Liability

As a seller of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if the products it sells are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including that the products they sell caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs to it, could adversely affect its reputation with its clients and consumers generally, and could have a material adverse effect on its results of operations and financial condition of the Company. There can be no assurances that the Company or its suppliers will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

OTHER INFORMATION

Additional information on the Company is available on SEDAR at www.sedar.com.