



AURA HEALTH INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(EXPRESSED IN CANADIAN DOLLARS)

NOTICE TO READER

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

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of the management of Aura Health Inc.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Professional Accountants for a review of interim financial statements by an entity's auditor.

AURA HEALTH INC.

Unaudited Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at March 31, 2019	As at December 31, 2018
	\$	\$
<u>Assets</u>		
Current Assets		
Cash (Note 5)	600,471	155,117
Other receivables (Note 6)	55,641	27,539
Prepaid expenses (Note 7)	47,742	93,656
Loans receivable (Note 21)	377,668	251,797
Total Current Assets	1,081,522	528,109
Assets classified as held for sale (Note 8)	160,181	163,525
Investment in associate (Note 9)	370,678	370,678
Investment in Pharmadrug (Note 10)	3,060,100	-
Total Assets	4,672,481	1,062,312
<u>Liabilities</u>		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 11 and 18)	474,283	423,077
Notes payable (Note 12)	627,484	-
Convertible debentures - current (Note 13)	289,629	630,679
Total Current Liabilities	1,391,396	1,053,756
Convertible debentures (Note 13)	347,991	329,519
Derivative liability (Note 13)	215,800	169,357
Total Liabilities	1,955,187	1,552,632
<u>Shareholders' Equity</u>		
Share capital (Note 14)	5,948,990	3,899,096
Shares to be issued (Note 15)	1,697,633	6,356
Equity component of convertible debentures (Note 13)	63,491	63,491
Reserve for share-based payments (Note 16)	226,478	170,078
Reserve for warrants (Note 17)	935,408	673,058
Accumulated other comprehensive loss	(34,923)	(52,395)
Accumulated deficit	(6,119,783)	(5,250,004)
Total Shareholders' Equity (Deficiency)	2,717,294	(490,320)
Total Liabilities and Shareholders' Equity	4,672,481	1,062,312

Nature of operations and going concern (Note 1)
Subsequent events (Note 22)

Approved on behalf of the Board of Directors:

"Joel Freudman" (signed)
Director

"David Posner" (signed)
Director

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

AURA HEALTH INC.

Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
<u>Expenses</u>		
Management and consulting fees (Note 18)	195,000	-
Professional fees (Note 18)	184,091	22,700
Office and general	4,267	268
Filing fees	14,918	-
Travel and promotion	124,600	-
Share-based compensation (Note 16)	56,399	1,813
	(578,273)	(24,781)
<u>Other Income (Expenses)</u>		
Foreign exchange gain (loss)	(30,352)	15,626
Finance cost (Notes 12, 13 and 21)	(39,111)	(49,180)
Fair value change in derivative liability (Note 13)	(222,043)	3,650
	(291,506)	(29,904)
Net Loss from Continuing Operations	(869,779)	(54,685)
<u>Discontinued Operations</u>		
Equity loss from joint ventures	-	(57,179)
Loss on Discontinued Operations	-	(57,179)
Net Loss	(869,779)	(111,864)
<u>Other Comprehensive Income (Loss)</u>		
Exchange loss on translation of foreign operations	(34,923)	(11,859)
Net Loss and Comprehensive Loss	(904,702)	(123,723)
Weighted Average Shares Outstanding		
- Basic and diluted	36,919,189	16,630,000
Loss per Share		
- Basic and diluted – Continuing operations	(0.024)	(0.003)
- Basic and diluted – Discontinued operations	(0.000)	(0.003)

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

AURA HEALTH INC.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	2019	2018
	\$	\$
<u>Operating Activities</u>		
Net loss for the period	(869,779)	(111,864)
Adjustments for non-cash items:		
Share-based compensation (Note 16)	56,399	1,813
Equity loss from joint ventures – discontinued operations	-	57,179
Fair value change in derivative liability (Note 13)	222,043	(3,650)
Finance cost (Notes 12, 13 and 21)	39,147	49,180
Foreign exchange (gain) loss	17,166	(5,012)
	(535,024)	(12,354)
Net change in non-cash working capital items:		
Other receivables (Note 6)	(28,102)	(2,946)
Prepaid expenses (Note 7)	45,914	-
Accounts payable and accrued liabilities (Note 11)	51,764	(83,330)
Cash Flows (used in) Operating Activities	(465,448)	(98,630)
<u>Financing Activities</u>		
Proceeds from private placement (Note 14)	1,724,100	-
Share issue costs (Note 14)	(38,324)	-
Proceeds received on subscriptions (Note 15)	1,983,100	-
Commissions paid on subscriptions (Note 15)	(157,428)	-
Interest payment made on debentures (Note 13)	(27,814)	-
Proceeds from notes payable (Note 12)	600,000	-
Exercise of warrants (Notes 14)	619	-
Cash Flows from Financing Activities	4,084,253	-
<u>Investing Activities</u>		
Advances made on investments (Note 10)	(3,060,100)	-
Advances made to acquisition target (Note 21)	(133,610)	-
Cash Flows (used in) Investing Activities	(3,193,710)	-
Increase (decrease) in cash	425,095	(98,630)
Effects of foreign exchange on cash	20,259	(11,859)
Cash, beginning of period	155,117	499,475
Cash, end of period	600,471	388,986

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

AURA HEALTH INC.

Unaudited Condensed Interim Consolidated Statements of Changes of Equity Flows

For the three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

	Share Capital		Reserves				Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Number of Shares	Amount	Shares to be Issued	Conversion Component of convertible debentures	Reserve for Share-Based Payments	Reserve for Warrants			
	#	\$	\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2017	16,630,000	410,749	6,356	32,043	80,000	188,922	3,861	(1,364,480)	(642,549)
Stock-based compensation (Note 16)	-	-	-	-	1,813	-	-	-	1,813
Exchange (loss) on translating foreign operations	-	-	-	-	-	-	(11,859)	-	(11,859)
Net loss for the period	-	-	-	-	-	-	-	(54,685)	(54,685)
Balance, March 31, 2018	16,630,000	410,749	6,356	32,043	81,813	188,922	(7,998)	(1,419,165)	(707,280)
Balance, December 31, 2018	31,072,567	3,899,096	6,356	63,491	170,078	673,058	(52,395)	(5,250,004)	(490,320)
Units and warrants issued on private placement (Notes 14 and 16)	11,493,998	1,593,236	-	-	-	130,864	-	-	1,724,100
Broker warrants issued on private placement (Note 16)	-	-	-	-	-	7,224	-	-	7,224
Share issue costs (Notes 14 and 16)	-	(35,415)	-	-	-	(10,133)	-	-	(45,548)
Subscription receipts issued on private placement (Note 15)	-	-	1,983,100	-	-	-	-	-	1,983,100
Broker warrants issued on private placement (Note 16)	-	-	(134,395)	-	-	134,395	-	-	-
Share issue costs (Note 15)	-	-	(157,428)	-	-	-	-	-	(157,428)
Issuance on conversion of debentures (Notes 13 and 14)	2,000,000	491,454	-	-	-	-	-	-	491,454
Warrants exercised (Note 14)	4,125	619	-	-	-	-	-	-	619
Stock-based compensation (Note 15)	-	-	-	-	56,400	-	-	-	56,400
Exchange gain on translating foreign operations	-	-	-	-	-	-	17,472	-	17,472
Net loss for the period	-	-	-	-	-	-	-	(869,779)	(869,779)
Balance, March 31, 2019	44,570,690	5,948,990	1,697,633	63,491	226,478	935,408	(34,923)	(6,119,783)	2,717,294

The accompanying notes are an integral part of these unaudited condensed interim consolidated financial statements.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Aura Health Inc. (“Aura” or the “Company”) is focused on building an international network of vertically integrated cannabis assets. Aura is targeting a downstream business in the legalized medical marijuana sector in the European and Israeli markets. The Company also owns a 30% interest in four (4) medical marijuana clinics in the United States (the “US”), for which the Company had committed a plan to dispose of (see Note 8).

On August 9, 2018, Aura Health Corp. and Lamêlée Iron Ore Ltd. (“Lamêlée”) completed a reverse takeover transaction (the “RTO Transaction”), providing for the acquisition by Lamêlée of all of the issued and outstanding common shares of Aura Health Corp. Pursuant to a Securities Exchange Agreement, all common shares of Aura Health Corp. were exchanged for common shares of Lamêlée, and Aura Health Corp. became a wholly-owned subsidiary of Lamêlée, which is continuing on with the business of Aura Health Corp. As a result, the unaudited condensed interim consolidated statements of financial position are presented as a continuance of Aura Health Corp. and comparative figures presented in the unaudited condensed interim consolidated financial statements are those of Aura Health Corp. Concurrent with the closing of the RTO Transaction, Lamêlée changed its name to Aura Health Inc. The Company’s common shares are listed on the Canadian Securities Exchange (the “CSE”) under the trading symbol “BUZZ”.

The address of the Company’s registered office is 77 King Street West, Suite 2905, Toronto, Ontario, M5K 1H1, Canada.

The business of medical marijuana involves a high degree of risk, and there is no assurance that any prospective project in the medical cannabis industry will be successfully initiated or implemented. Further, regulatory evolution and uncertainty may require the Company to alter its business plan to react to regulatory changes.

As at March 31, 2019, the Company had a working capital deficiency of \$309,874 (December 31, 2018 – working capital deficiency of \$525,647), and had not yet achieved profitable operations and is dependent on its ability to obtain additional financing. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. In assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the 12-month period following March 31, 2019. Subsequent to period-end, various financing initiatives were completed:

- The Company closed the second tranche of its brokered private placement offering of 12,818,500 subscription receipts at a price of \$0.22 per subscription receipt, for gross proceeds of \$2,820,070; and
- The Company is actively monitoring cash forecasts and managing performance against its forecasts.

As a result, the Company expects to have sufficient cash to fund continuing operations through this fiscal year and beyond.

These unaudited condensed interim consolidated financial statements have been prepared on the basis that the Company will continue as a going concern and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

The Company’s unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 – Interim Financial Reporting. Accordingly, they do not include all of the information and disclosures required by IFRS for annual financial statements.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(a) Statement of Compliance (continued)

These unaudited condensed interim consolidated financial statements were reviewed, approved and authorized by the Audit Committee and the Board of Directors of the Company on May 29, 2019.

(b) Basis of Measurement

These unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets. In addition, these unaudited condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of Consolidation

These unaudited condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Aura Health Corp. and Green Global Properties Inc. (“Green Global”) which is formed in the State of Delaware.

The unaudited condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

(d) Functional Currency

These consolidated financial statements are presented in Canadian dollars (\$) or “CAD”), which is the Company’s functional currency. The functional currency of Green Global is the US dollar (USD \$).

(e) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company’s ability to continue as a going concern by reviewing the Company’s performance, resources and future obligations.

Business combination

Classification of an acquisition as a business combination or an asset acquisition depends on whether the assets acquired constitute a business, which can be a complex judgment. Whether an acquisition is classified as a business combination or asset acquisition can have a significant impact on the entries made on and after acquisition. In determining the fair value of all identifiable assets, liabilities and contingent liabilities acquired, the most significant estimates relate to contingent consideration and intangible assets. Management exercises judgement in estimating the probability and timing of when earn-outs are expected to be achieved which is used as the basis for estimating fair value. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(e) Significant Accounting Judgments and Estimates (continued)

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes valuation model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest rate.

Derivative liabilities

The conversion feature and the warrants component of convertible debentures which contain contractual terms that result in the potential adjustment in the conversion or exercise price, are accounted for as derivative liabilities as their fair value is affected by changes in the fair value of the Company's common shares. The estimates, assumptions and judgments made in relation to the fair value of derivative liabilities are subject to measurement uncertainty. The conversion feature of the convertible debentures is required to be measured at fair value at each reporting period. The valuation techniques used to determine fair value require inputs that involve assumptions and judgments such as estimating the future volatility of the stock price, expected dividend yield, and expected term. Such judgments and assumptions are inherently uncertain.

Income taxes

Income taxes and tax exposures recognized in the unaudited condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Investment in associates

Investments in associates are accounted for using the equity method and are initially recognized at cost, excluding financial assets that are not in-substance common shares and inclusive of transaction costs.

The unaudited condensed interim consolidated financial statements include the Company's share of the income and expenses and equity movement of equity accounted investees. In accordance with IFRS, the investee's most recent available financial statements are used in the application of the equity method. Where the investee's reporting period differs from the Company's, the investee prepares financial information as of the same period end as the Company, unless it is impracticable to do so. Otherwise, the Company will adjust for its share of income and expenses and equity movement based on the investee's most recently completed financial statements, adjusted for the effects of significant transactions. The Company does not recognize losses exceeding the carrying value of its interest in associates.

Assets held for sale

Classification of a non-current asset held for sale depends on whether the criteria to be classified as held for sale is met in accordance with IFRS. Management exercises judgement in assessing whether the carrying amount of the asset will be recovered principally through a sale transaction rather than through continuing use, and whether the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and if the sale is highly probable.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in these unaudited condensed interim consolidated financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended December 31, 2018.

(a) Adoption of New Accounting Standards

The Company adopted the following new standards, effective January 1, 2019. The changes and amendments were made in accordance with the applicable transitional provisions. On adoption of the new standard and amendment, the Company had assessed that there was no material impact on the Company's unaudited condensed interim consolidated financial statements:

IFRS 16 – Leases (“IFRS 16”)

IFRS 16 was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated amortization and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease.

(b) Recent Accounting Pronouncements

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and IFRS Interpretations Committee have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after January 1, 2020:

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

IAS 1 and IAS 8 were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

4. REVERSE TAKEOVER TRANSACTION

On August 9, 2018, Lamêlée and Aura Health Corp. completed the RTO Transaction, whereby, the shareholders of Aura Health Corp. held a majority of the outstanding common shares of the resulting issuer. The substance of the RTO Transaction is a reverse acquisition of a non-operating company. As a result, the RTO Transaction has been accounted for as a capital transaction with Aura Health Corp. being identified as the acquirer and the equity consideration being measured at fair value, using the acquisition method of accounting. The RTO Transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of Aura Health Corp., together with a deemed issuance of shares equivalent to the shares held by the former shareholders of Lamêlée.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

4. REVERSE TAKEOVER TRANSACTION (continued)

Details of the RTO Transaction are presented as follows:

Purchase Price Consideration Paid	
	\$
Fair value of common shares issued ⁽ⁱ⁾	1,497,083
Fair value of options issued ⁽ⁱⁱ⁾	-
Fair value of warrants issued ⁽ⁱⁱⁱ⁾	238,606
	1,735,689
Net Identifiable Assets Acquired	
	\$
Cash	190,901
Sales tax receivable	19,122
Accounts payable and accrued liabilities	(172,397)
Due to related party	(217,830)
Total net identifiable assets acquired	(180,204)
Excess of consideration paid over net assets acquired, representing a cost of the RTO Transaction	1,915,893
Finders' compensation paid on closing of RTO Transaction ^(iv)	226,740
Total RTO acquisition costs	2,142,633

The Company has accounted for the RTO Transaction as an asset acquisition under the scope of IFRS 2 – Share-Based Payments. Consideration consisted entirely of shares, options and warrants of the Company which were measured at the estimated fair value on the date of the acquisition:

1. The fair value of the 3,961,584 common shares, issued to former Lamêlée shareholders, was determined to be \$1,497,083 based on the fair value of common shares issued through the Concurrent Financing which closed on August 9, 2018. Immediately after the RTO Transaction was completed, the number of shares of the resulting issuer held by Lamêlée shareholders was approximately 17.3%.
2. The estimated fair value of the 92,500 options issued as consideration are based on the Black-Scholes valuation model with the following assumptions: current stock price – \$0.38 per share, expected dividend yield – 0%, expected volatility – 49%, risk-free interest rate – 1.46% and an expected life of 0.25 years. In making the assumptions for expected volatility, the Company used the historical volatility of comparable companies.
3. The estimated fair value of the 1,052,996 warrants issued as consideration are based on the Black-Scholes valuation model with the following assumptions: current stock price – \$0.38 per share, expected dividend yield – 0%, expected volatility – 81%, risk-free interest rate – 2.11% and an expected life of 1.70 years. In making the assumptions for expected volatility, the Company used the historical volatility of comparable companies.
4. On August 9, 2018, the Company issued 300,000 common shares to a financial advisor as compensation for advisory services provided and 300,000 common shares to a finder on closing of the RTO Transaction. The fair value of these common shares was estimated at \$226,740 based on the fair value of common shares issued in the Concurrent Financing, and was recorded as share-based payments during the year ended December 31, 2018.
5. The transaction costs relating to the RTO Transaction plus the aggregate of the fair value of the consideration paid has been recognized as reverse takeover acquisition costs, in the consolidated statements of loss and comprehensive loss for the year ended December 31, 2018.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Expressed in Canadian Dollars)

5. CASH

The components of cash were as follows

	March 31, 2019	December 31, 2018
	\$	\$
Cash	280,560	155,117
Restricted cash	319,911	-
	600,471	155,117

As at March 31, 2019, restricted cash of \$319,911 (December 31, 2018 – \$nil) representing the net cash proceeds of the first tranche of a private placement offering (the “Offering”) of 8,726,954 subscription receipts (the “Subscription Receipts”), was placed in escrow with an escrow agent on behalf of the purchasers of the Subscription Receipts pursuant to an agency agreement (the “Agency Agreement”) with various Agents. The funds will be released to the Company upon satisfaction of certain escrow release conditions (the “Escrow Release Conditions”). Subsequent to period-end, the funds were released from escrow (see Note 22 for details).

6. OTHER RECEIVABLES

	March 31, 2019	December 31, 2018
	\$	\$
Sales tax receivables	50,141	22,039
Other receivables	5,500	5,500
	55,641	27,539

The Company’s sales tax receivables arise from harmonized sales tax refunds and amounts due from government taxation authorities. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables, which are due in less than one year.

7. PREPAID EXPENSES

	March 31, 2019	December 31, 2018
	\$	\$
Advances made to suppliers	45,912	91,823
Other prepaid expenses	1,830	1,833
	47,742	93,656

8. ASSETS HELD FOR SALE

In October 2018, management had approved the sale of its 30% interest in the Sun Valley Clinics, which operate four (4) Clinics in the States of Nevada, Arizona and Florida, in the US. The proposed sale transaction is expected to close within the next 12 months. Upon management’s decision to divest of its interest in the Sun Valley Clinics, the investments were no longer a significant part of Aura’s operations, as the Company began exploring the European cannabis markets. As at March 31, 2019, the investments in the Sun Valley Clinics were classified as held for sale on the unaudited condensed interim consolidated statements of financial position.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

8. ASSETS HELD FOR SALE (continued)

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. To determine the fair value less costs to sell, the Company will consider factors such as expected future cash flows using appropriate market rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value, in accordance to IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

As at March 31, 2019, the assets classified as held for sale were measured at a fair value less of costs to sell of \$160,181 (December 31, 2018 – \$163,525).

Subsequent to period-end, the Company completed the sale of the Clinics (see Note 22 for details).

9. INVESTMENT IN ASSOCIATE

On August 22, 2018, the Company entered into a Letter of Intent (“LOI”) to subscribe to an unsecured convertible note (“Convertible Note”) in HolyCanna Ltd. (“HolyCanna”), an Israel-based company with a cannabis cultivation and sales license application (“License Application”) submitted to the Israeli Ministry of Health (the “Ministry”). Terms of the LOI are as follows:

- The Company will provide HolyCanna with a bridge loan (“Bridge Loan”) in the principal amount of 1,000,000 Israeli Shekels (“ILS”). The Bridge Loan will be non-interest-bearing and is due on November 1, 2018, upon which the Bridge Loan will be cancelled and converted to principal within a Convertible Note investment;
- On November 1, 2018, the Company will subscribe for the Convertible Note in the maximum principal amount of approximately \$3,566,060 (ILS 10,000,000), which will be advanced in tranches on the following timetable:
 - Approximately \$713,212 (ILS 2,000,000) by December 15, 2018;
 - Approximately \$1,248,121 (ILS 3,500,000) by February 1, 2019; and
 - The remaining sum of approximately \$1,248,121 (ILS 3,500,000) will be advanced after February 1, 2019 upon request made by HolyCanna.
- Upon approval of the License Application, the Convertible Note will be automatically converted into a majority (54%) equity stake.

On November 22, 2018, the Company entered into a definitive agreement with HolyCanna to advance up to approximately \$3.57 million (ILS 10,000,000) to HolyCanna and subscribed to the Convertible Note which automatically converts to 54% equity in HolyCanna once the Company is added to the License Application. As part of HolyCanna’s founders’ agreement, Aura was awarded four (4) of the seven (7) Board votes of HolyCanna. As a result, it was determined that the Company had significant influence and will account for the investment in HolyCanna as an investment in associate using the equity basis of accounting.

As at March 31, 2019, the Company had advanced total funds of \$370,678 (ILS 1,000,000) (December 31, 2018 – \$370,678 (ILS 1,000,000)) to HolyCanna.

As at March 31, 2019, the Company did not have any equity interest in HolyCanna, and as a result, it had not recorded any equity pickup during the three months ended March 31, 2019.

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10. INVESTMENT IN PHARMADRUG

On January 24, 2019, the Company entered into a binding LOI to acquire 80% of Pharmadrug Production GmbH (“Pharmadrug”), a German pharmaceutical distribution company, for EUR 5,000,000 (the “Pharmadrug Acquisition”). The seller, Anquor Pharmaceuticals Ug (“Anquor”), will retain a 20% interest in Pharmadrug. As per the terms of the LOI, the Company will pay for the shares of Pharmadrug as follows:

- An advance of EUR1,000,000 as at January 31, 2019;
- An advance of EUR1,000,000 as at February 28, 2019; and
- An advance of EUR3,000,000 as at May 31, 2019.

On February 27, 2019, the Company entered into a definitive share purchase agreement (the “SPA”) with Pharmadrug, which superseded the LOI. The total purchase price for the Pharmadrug Acquisition is EUR 4,600,000. In addition, Aura will advance EUR 400,000 to Pharmadrug as a shareholder loan to assist Pharmadrug to maintain appropriate levels of working capital. The SPA provides that Anquor will be entitled to receive an earn-out payment of EUR 400,000 if the total revenues of the pharmaceutical tender business of Pharmadrug for the 2019 financial year are 90% or more of the total revenues of that business segment for the 2018 financial year. The earn-out, if any, will be due and payable to Anquor on March 1, 2020.

As at March 31, 2019, the Company has paid \$3,060,100 (EUR 2,000,000) of the total purchase price through instalments of EUR 1,000,000 on each of January 31, 2019 and February 28, 2019, which are fully refundable should the transaction not close.

Subsequent to period-end, the Company closed the Pharmadrug Acquisition (see Note 22).

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for trade purchases incurred in the normal course of business.

The following is an aging analysis of the accounts payable and accrued liabilities:

	March 31, 2019	December 31, 2018
	\$	\$
Less than 90 days	278,112	230,470
Greater than 90 days	196,171	192,607
	474,283	423,077

12. NOTE PAYABLE

On January 28, 2019, the Company issued promissory notes (the “Notes”) in the principal amount of \$600,000, bearing interest at 2% per month and due on March 28, 2019. The funds were lent by three (3) directors and officers of the Company. The maturity date of the Notes was subsequently postponed until fulfillment by the Company of the Escrow Release Conditions pursuant to the Offering of Subscription Receipts.

As at March 31, 2019, the amounts in outstanding principal of \$600,000 (December 31, 2018 – \$nil) and accrued interest of \$27,484 (December 31, 2018 – \$nil) were owed by the Company.

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13. CONVERTIBLE DEBENTURES

(a) Series B Debentures

On December 22, 2017, the Company closed a non-brokered private placement of secured convertible debentures (the “Series B Debentures”) for total proceeds of \$600,000. The Secured Debentures bear interest at a rate of 12% per annum and mature on December 22, 2019. The Series B Debentures are convertible at the option of the holder at any time prior to the maturity date into common shares of the Company at a conversion price which shall be the lower of (i) \$0.60 per share, (ii) the price equal to 75% of the Concurrent Financing price, (iii) the lowest price that Aura common shares are issued from treasury during the period from the Series B Debentures issuance date up to the conversion date, or (iv) if a liquidity event (being the RTO Transaction) has not occurred by June 30, 2018, or such later date agreed by the Series B Holders in writing, the price equal to the higher of (a) \$0.20, and (b) 50% of the lowest price that Aura shares are issued from treasury during the period from the first liquidity deadline to the conversion date.

As the Company had completed a new round of financing on January 10, 2019 at a subscription price of \$0.15, the conversion price has been set at \$0.15 (December 31, 2018 – \$0.368). The Series B Debentures rank pari passu with respect to the security and collateral granted in connection therewith, and have first priority security against the Company.

The conversion feature of the Series B Debentures meets the definition of a derivative liability instrument because the conversion rate is variable and therefore does not meet the “fixed-for-fixed” criteria outlined under IFRS. As a result, the conversion feature is required to be recorded as a derivative liability recorded at fair value and marked-to-market each period with the changes in fair value each period being charged or credited to income.

On January 15, 2019, \$300,000 of the Series B Debentures were converted into 2,000,000 common shares of the Company. The debentures and the derivative liability balances of \$315,854 and \$175,600, respectively, had been derecognized as a result.

As at March 31, 2019, the derivative liability was valued at \$215,800 (December 31, 2018 – \$169,357) and a loss of \$222,043 was included in fair value change in derivative liability for the three months ended March 31, 2019 (2018 – gain of \$2,200).

(b) Unsecured Debentures

On October 26, 2018, the Company closed a non-brokered private placement offering of unsecured convertible debentures (the “Unsecured Debentures”) for total gross proceeds of \$400,000. The Unsecured Debentures bear interest at a rate of 10% per annum, payable quarterly in arrears. Each Unsecured Debenture is convertible at the conversion price of \$0.365 into units of the Company consisting of one (1) common share and one-half (1/2) of a share purchase warrant, with each whole such warrant exercisable at the conversion price of \$0.50 to acquire one (1) common share of the Company for a period of 24 months from the date of issuance.

Total costs of raising the Unsecured Debentures include legal costs of \$20,000, which had been capitalized.

The Unsecured Debentures are classified as a liability, with the exception of the portion relating to the conversion feature, resulting in the carrying value of the debentures being less than face value. The discount is being accreted over the term of the debentures utilizing the effective interest rate method at a 23.15% discount rate.

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13. CONVERTIBLE DEBENTURES (continued)

The following table reflects the continuity of convertible debentures as at March 31, 2019:

	\$
Balance, December 31, 2018	960,198
Interest and accretion expense	21,090
Conversion of debentures into common shares	(315,854)
Payment of interest on debentures	(27,814)
Balance, March 31, 2019	637,620

The following table reflects the breakdown of convertible debentures as at March 31, 2019:

	\$
Current	
Series B Debentures	289,629
Long-term	
Unsecured Debentures	347,991
Balance, March 31, 2019	637,620

14. SHARE CAPITAL

Authorized share capital

The Company is authorized to issue an unlimited number of common shares without par value.

	March 31, 2019	December 31, 2018
	\$	\$
Issued: 44,570,690 common shares (December 31, 2018 – 31,072,567)	5,948,990	3,899,096

Share capital transactions for the three months ended March 31, 2019

On January 10, 2019, the Company closed a non-brokered private placement (the “Private Placement”) of 11,493,998 units at a price of \$0.15 per unit, for gross proceeds of \$1,724,100. Each unit is comprised of one (1) common share of the Company and one-half (1/2) of a common share purchase warrant exercisable at \$0.25 for a period of 24 months from closing. In connection with the Private Placement, the Company issued 122,160 finders’ warrants (each a “Finder’s Warrant”) and paid cash commissions of \$18,324. Each Finder’s Warrant is exercisable into one (1) common share of the Company at a price of \$0.25 for a period of 24 months from closing.

On January 15, 2019, the Company issued 2,000,000 common shares as a result of the conversion of \$300,000 of principal of the Series B Debentures at the conversion price of \$0.15 (see Note 13(b)).

During the three months ended March 31, 2019, 4,125 common shares were issued as a result of the exercise of warrants for cash proceeds of \$619.

Share capital transactions for the three months ended March 31, 2018

There were no share capital transactions during the three months ended March 31, 2018.

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15. SHARES TO BE ISSUED

On February 27, 2019, the Company closed the first tranche (“Tranche 1”) of the Offering of 8,726,954 Subscription Receipts at an issue price of \$0.22 (the “Issue Price”) per Subscription Receipt, for gross proceeds of \$1,919,930. Upon satisfaction by the Company of certain Escrow Release Conditions, each Subscription Receipt will entitle the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one (1) unit of the Company consisting of one (1) common share and one-half (1/2) of a warrant, with each warrant exercisable at \$0.28 into one (1) common share of the Company for a period of 24 months from the date of satisfaction of the Escrow Release Conditions.

In connection with Tranche 1 of the Offering, the Company paid \$157,428 in cash commissions and issued 610,888 Finder’s Warrants.

As at March 31, 2019, the Company had also received proceeds of \$63,200 in relation to subscription funds on the second tranche (“Tranche 2”) of the Offering, which closed on April 17, 2019 (see Note 22).

16. RESERVE FOR SHARE-BASED PAYMENTS

The Company maintains a stock option plan (the “Plan”) whereby certain key employees, officers, directors and consultants may be granted stock options for common shares of the Company. The maximum number of common shares that are issuable under the Plan is limited to 10% of the number of issued and outstanding common shares. As at March 31, 2019, the Company had 1,657,069 common shares available for issuance under the Plan.

Under the Plan, the exercise price of each option may not be less than the closing price of the Company’s shares on the trading day prior to the grant date or the grant date itself, whichever is higher. Vesting of options is determined at the discretion of the Board of Directors.

The following summarizes the stock option activity for the three months ended March 31, 2019 and 2018:

	March 31, 2019		March 31, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	2,250,000	0.16	1,600,000	0.10
Granted	550,000	0.235	50,000	0.10
Expired	-	-	(50,000)	0.10
Outstanding, end of period	2,800,000	0.18	1,600,000	0.10
Exercisable, end of period	2,475,000	0.16	1,600,000	0.10

Option grants for the three months ended March 31, 2019

On January 17, 2019, the Company granted 200,000 options to a director at an exercise price of \$0.235, expiring on January 17, 2021. The options vested immediately on grant. The Company also granted 350,000 options to a consultant under the same terms and expiry, of which 200,000 options vested immediately on grant, while the remaining 150,000 options vest on April 17, 2019. The options were valued using the Black-Scholes valuation model with the following assumptions: expected volatility of 77%, expected dividend yield of 0%, risk-free interest rate of 1.90% and an expected life of 2 years. The grant date fair value attributable to these options of \$45,157, of which 42,831 was recorded as stock-based compensation in connection with the vesting of these options during the three months ended March 31, 2019.

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16. RESERVE FOR SHARE-BASED PAYMENTS (continued)

Option grants for the three months ended March 31, 2018

On March 1, 2018, the Company granted 50,000 stock options to an officer of the Company. The options are exercisable at \$0.10 per share and will expire on August 16, 2020. The options vested immediately on grant. The options were valued using the Black-Scholes valuation model with the following assumptions: expected volatility of 87%, expected dividend yield of 0%, risk-free interest rate of 1.92% and an expected life of 2.85 years. The grant date fair value attributable to these options of \$1,813 was recorded as stock-based compensation in connection with the vesting of these options during the three months ended March 31, 2018.

The following table summarizes information of stock options outstanding and exercisable as at March 31, 2019:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
August 16, 2020	1,600,000	1,600,000	0.10	1.38
January 17, 2021	550,000	400,000	0.235	1.80
September 24, 2021	650,000	475,000	0.31	2.49
	2,800,000	2,475,000	0.16	1.72

17. RESERVE FOR WARRANTS

The following summarizes the warrant activity for the three months ended March 31, 2019 and 2018:

	March 31, 2019		March 31, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	7,012,172	0.41	3,875,000	0.16
Issued from private placement of units	5,869,159	0.25	-	-
Issued from private placement of subscription receipts	610,888	0.25	-	-
Underlying warrants exercised	(4,125)	0.15	-	-
Outstanding, end of period	13,488,094	0.34	3,875,000	0.16

Warrant issuances for the three months ended March 31, 2019

On January 10, 2019, the Company issued 5,746,999 warrants in conjunction with the Private Placement, as disclosed in Note 16. Each warrant is exercisable at \$0.25 to purchase one (1) common share of the Company for 24 months after closing of the Private Placement. The grant date fair value of the warrants issued was estimated to be \$130,864 using the Black-Scholes valuation model with the following assumptions: expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.91% and an expected life of two (2) years.

In connection with the Private Placement, 122,160 Finder's Warrants were issued as compensation. The Finder's Warrants are exercisable at \$0.25 to purchase one (1) common share of the Company. The Finder's Warrants are exercisable for a period of two (2) years. The grant date fair value of the finder warrants issued was estimated to be \$7,224 using the Black-Scholes valuation model with the following assumptions: market price of \$0.18, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.91% and an expected life of two (2) years.

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17. RESERVE FOR WARRANTS (continued)

Warrant issuances for the three months ended March 31, 2019 (continued)

In connection with Tranche 1 of the Offering, 610,888 Finder's Warrants in the form of Subscription Receipt were issued as compensation. The Finder's Warrants will entitle the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one (1) unit of the Company consisting of one (1) common share and one-half (1/2) of a warrant, with each warrant exercisable at \$0.28 into one (1) common share of the Company for a period of 24 months from the date of closing of the Offering. The grant date fair value of the Finder's Warrants issued was estimated to be \$134,395 using the Black-Scholes valuation model with the following assumptions: market price of \$0.22, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.77% and an expected life of two (2) years.

Warrant issuances for the three months ended March 31, 2018

There were no warrant issuances during the three months ended March 31, 2018.

The following table summarizes information of warrants outstanding as at March 31, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
April 20, 2019	20,000	1.00	0.05
August 9, 2019	408,163	1.00	0.36
December 22, 2019	80,000	0.60	0.73
April 21, 2020	1,052,996	0.20	1.06
August 9, 2020	2,301,873	0.75	1.36
August 9, 2020	78,015	0.49	1.36
August 16, 2020	2,600,000	0.15	1.38
August 16, 2020	467,000	0.10	1.38
January 10, 2021	5,869,159	0.25	1.78
February 27, 2021	610,888	0.28	1.92
	13,488,094	0.34	1.52

18. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

Key management includes the Company's directors, officers and any employees with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

Key management personnel compensation

The remuneration of directors and other members of key management personnel during the three months ended March 31, 2019 and 2018 were as follows:

	2019	2018
	\$	\$
Consulting fees	75,000	-
Professional fees	22,500	12,000
Stock-based compensation (Note 16)	16,421	1,813
	113,921	336,325

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18. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION (continued)

Key management personnel compensation (continued)

On August 16, 2018, the Company appointed Daniel Cohen as its Chief Executive Officer (“CEO”), and entered into a consulting agreement, providing for CEO services. In consideration for the services provided, the Company agreed to pay a monthly fee of \$10,000. During the three months ended March 31, 2019, the Company was charged \$30,000 (2018 – \$nil) for services provided by the CEO. As at March 31, 2019, \$51,836 (December 31, 2018 – \$50,850) owing to the CEO was included in accounts payable and accrued liabilities.

On November 19, 2018, the Company appointed Howard Brass as its Chief Operating Officer (“COO”), and entered into a consulting agreement, providing for consulting services. In consideration for the services provided, the Company agreed to pay a monthly fee of \$10,000. During the three months ended March 31, 2019, the Company was charged \$30,000 (2018 – \$nil) for services provided by the COO. As at March 31, 2019, \$33,900 (December 31, 2018 – \$34,699) owing to the COO was included in accounts payable and accrued liabilities.

During the three months ended March 31, 2019, the Company incurred professional fees of \$22,500 (2018 – \$12,000) from Branson Corporate Services Ltd. (“Branson”), where Keith Li, the Chief Financial Officer (“CFO”) is employed. Branson is party to a management services agreement, for providing CFO services to the Company, as well as other accounting and administrative services. As at March 31, 2019, a \$nil no balance was owed to Branson (December 31, 2018 – \$8,475 was included in accounts payable and accrued liabilities), and a balance \$6,356 (December 31, 2018 – \$6,356) was included in shares to be issued to settle with Branson.

During the three months ended March 31, 2019, David Posner, the Chairman of the Company, charged consulting fees of \$15,000 (2018 – \$nil) for services provided to the Company. As at March 31, 2019, \$81,000 (December 31, 2018 – \$103,500) owing to the Chairman was included in accounts payable and accrued liabilities.

On January 17, 2019, the Company granted 200,000 options to Joel Freudman, a director of the Company. The options vested immediately on grant, and the grant date fair value of \$16,421 attributable to these options was recorded as stock-based compensation during the three months ended March 31, 2019.

On March 1, 2018, the Company granted 50,000 stock options to the CFO. The options vested immediately on grant, and the grant date fair value of \$1,813 attributable to these options was recorded as stock-based compensation during the three months ended March 31, 2018.

Units subscription

During the three months ended March 31, 2019, the CEO had subscribed for 400,000 units at a price of \$0.15 per unit from the Private Placement, and 500,000 Subscription Receipts at an Issue Price of \$0.22 from Tranche 1 of the Offering. He also holds title to 350,000 units of the Company subscribed in prior years.

During the three months ended March 31, 2019, the COO had subscribed for 100,000 units at a price of \$0.15 per unit from the Private Placement. He also holds title to 100,000 units of the Company subscribed in prior years.

Notes payable

As per disclosed in Note 12, the CEO, the COO and the Chairman of the Company had each advanced \$200,000 on January 28, 2019.

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19. CAPITAL MANAGEMENT

The Company manages its capital structure and adjusts it, based on the funds available to the Company, in order to support the development of its planned business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. In order to carry out the planned business activities and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company considers its capital to be shareholders' equity, which is comprised of share capital, shares to be issued, equity component of convertible debentures, reserve for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at March 31, 2019, the Company's capital consisted of an equity of \$2,717,294 (December 31, 2018 – deficit of \$490,320).

The Company's objective when managing capital is to obtain adequate levels of funding to support its business activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the development of its business. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements and issuance of convertible debentures. There can be no assurance that the Company will be able to continue raising capital in this manner.

The Company is not subject to externally imposed capital requirements.

20. FINANCIAL INSTRUMENTS RISK

Fair value

The carrying amount of cash, other receivables, accounts payables and accrued liabilities on the unaudited condensed interim consolidated statements of financial position approximate fair value due to the relatively short maturity of these financial instruments. The fair value of the derivative liability was estimated based on the assumptions disclosed in Note 13.

Fair value hierarchy

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at March 31, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1 and the derivative liability which was calculated using Level 2 inputs.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash, other receivables and loans receivable, which expose the Company to credit risk should the borrower default on maturity of the instruments. Cash is held with a reputable Canadian chartered bank. Management believes that the credit risk concentration with respect to financial instruments included in cash, other receivables and loans receivable is minimal.

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20. FINANCIAL INSTRUMENTS RISK (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company. The Company generates cash flow primarily from its financing activities.

As at March 31, 2019, the Company had a cash balance of \$600,471 (December 31, 2018 – \$155,117) to settle current liabilities of \$1,391,396 (December 31, 2018 – \$1,053,756). Although the Company does not maintain a revolving credit facility, it has sufficient funds available to meet its current and foreseeable financial requirements.

Foreign exchange risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company invests into the Sun Valley Clinics and from time to time, other investments denominated in foreign currencies, notably in USD and Euro ("EUR"). As the Company looks to expand into Europe, some of the Company's financial instruments and transactions are denominated in currencies other than the CAD. The results of the Company's operations are subject to currency transaction and translation risks.

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. The majority of the Company's debentures have fixed interest rates. As at March 31, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

21. PROPOSED TRANSACTION

On September 4, 2018, the Company entered into a LOI to acquire 57% of the outstanding equity of CannabiSendak LTD. ("CannabiSendak") (the "CannabiSendak Transaction"), an Israeli company intending to establish licensed medical cannabis dispensaries in Israel. CannabiSendak will use HolyCanna as its primary provider of branded cannabis products.

Terms of the LOI are as follows:

- The Company will purchase common shares of CannabiSendak for USD \$300,000 upon closing, and will make contingent payments of USD \$200,000 after CannabiSendak reaches clientele of 500 active medical cannabis patients, and additional payments of USD \$250,000 for every incremental 500 active patients CannabiSendak achieves thereafter;
- The Company will purchase common shares of CannabiSendak for USD \$200,000, payable in equal tranches of USD \$40,000 over a 5-month period, commencing once CannabiSendak obtains the necessary licenses and approvals for the establishment of dispensaries; and
- The Company will purchase common shares of CannabiSendak for USD \$200,000 for the establishment of dispensaries. This consideration will be divided into four (4) equal payments of USD \$50,000 paid every 45 days, commencing the day of signing the Agreement.

Prior to the above taking place, in accordance with the LOI with CannabiSendak, the Company will make an unsecured loan (the "Loan") to the existing shareholders of CannabiSendak in the total principal amount of USD \$300,000. Aura shall make advances to the shareholders as follows:

1. USD \$100,000 – Within 10 days after signing the term sheet and Aura Loan Note (advanced in 2018);
2. USD \$100,000 – Within 45 days after signing the term sheet and Aura Loan Note (advanced in 2018); and
3. USD \$100,000 – Within 90 days after signing the term sheet and Aura Loan Note (advanced in 2019).

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21. PROPOSED TRANSACTION (continued)

The Loan is due and payable at the earlier of the closing date (defined as the completion of (a) and (b) noted above) and one (1) year from the date of the execution of the term sheet. The shareholders of the Loan will have a one-sided option to extend the maturity date for an additional 180 days (option period). The Loan is non-interest bearing prior to maturity. The loan will bear interest during the option period (if exercised) at an annual rate of 12% on or after the original maturity date.

As at March 31, 2019, 2018, the Company had advanced total Loans of \$403,970 (USD \$300,000) (December 31, 2018 – \$270,360 (USD \$200,000)) to CannabiSendak shareholders. As the Loan is non-interest bearing, it was recorded at its fair present value of \$365,890 (December 31, 2018 – \$241,404). The fair value was determined by using a discount rate of 12%.

As at March 31, 2019, the value of the Loan was \$377,668 (December 31, 2018 – \$251,796) and an amount of \$9,427 (2018 – \$nil) was recorded as interest income included in finance costs in the unaudited condensed interim consolidated statements of loss.

As the purpose of the Loan noted above are contractual cash flows for the purpose of payments of principal and interest, the Loan has been classified as a financial asset measured at amortized cost. The Company deems the ECL insignificant due to the fact that the Company's intentions on repayment of the Loan will be to reinvest the proceeds into CannabiSendak. The effective interest rate of the Loan is 11%

The CannabiSendak Transaction is subject to final due diligence by the respective parties, execution of a definitive acquisition agreement, receipt of applicable corporate approvals, and other regulatory approval

22. SUBSEQUENT EVENTS

Private placement financings

On April 17, 2019, the Company closed Tranche 2 of the Offering of 12,818,500 Subscription Receipts, for gross proceeds of \$2,820,070 under the same terms as Tranche 1 of the Offering. Upon satisfaction by the Company of certain Escrow Release Conditions, each Subscription Receipt will entitle the holder to receive, without any further action on the part of the holder or payment of any additional consideration, one (1) unit of the Company consisting of one (1) common share and one-half (1/2) of a warrant, with each warrant exercisable at \$0.28 into one (1) common share of the Company for a period of 24 months from the date of satisfaction of the Escrow Release Conditions.

On May 17, 2019, the Company satisfied all Escrow Release Conditions pursuant to the Offering of Subscription Receipts, on closing of the Pharmadrug Acquisition.

Share exchange agreement

On April 17, 2019, the Company entered into a share exchange agreement with FSD Pharma Inc. ("FSD"), a licensed producer under the Cannabis Act (Canada) whereby FSD acquired 13,562,386 common shares of Aura ("Aura Shares") valued at \$3 million issued from treasury in exchange for 13,181,019 common shares of FSD ("FSD Shares") issued from treasury (the "Share Exchange") valued at \$3 million. In connection to the Share Exchange, 813,743 Compensation Options were issued to the lead agent. The agreement governing the Share Exchange also contains adjustment provisions that depend on the price of the FSD Shares at the end of the applicable statutory hold period.

In conjunction of the Share Exchange, the Company had secured a \$3 million bridge facility (the "Bridge Facility") from a private lender (the "Lender"). The proceeds from the Bridge Facility were used to close the Pharmadrug Acquisition. The Bridge Facility will bear interest at a rate of 18% per annum and mature on September 24, 2019. In connection with the Bridge Facility, the Company: (i) entered into a general security agreement with the Lender, (ii) granted the Lender exclusive control over the FSD Shares; and (iii) granted the Lender a power of attorney or trading authority in respect of the FSD Shares.

AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Three months ended March 31, 2019 and 2018

(Expressed in Canadian Dollars)

22. SUBSEQUENT EVENTS (continued)

Sun Valley Clinics

On April 30, 2019, the Company, through Green Global, entered into a definitive purchase and sale agreement (the “Purchase Sale Agreement”) with Empower Healthcare Assets Inc. (“Empower”), a Delaware corporation and wholly-owned subsidiary of Empower Clinics Inc., pursuant to which Empower acquired Aura’s 30% interest in the Sun Valley Clinics. In consideration, Green Global received a promissory note issued by Empower in the principal amount of USD \$125,000 (the “Promissory Note”). The Promissory Note bears interest at a rate of 4% per annum, matures on July 31, 2019 and may be prepaid at any time, in whole or in part, without penalty or premium. The transaction satisfied one of the Escrow Release Conditions pursuant to the Offering of Subscription Receipts.

Closing of Pharmadrug Acquisition

On May 17, 2019, the Company closed the Pharmadrug Acquisition total consideration of EUR 5,000,000. On closing of the Acquisition, the Company assumed control of Pharmadrug through an 80% equity interest in the entity.

Options, warrants and convertible debentures

On April 20, 2019, 20,000 warrants exercisable at \$1.00 expired unexercised.

On April 25, 2019, 260,000 common shares of the Company were issued as a result of the exercise of 260,000 options for total cash of \$26,000. All issued shares were fully paid.

On April 29, 2019, 2,000,000 common shares of the Company were issued as a result of the conversion of the remaining principal of \$300,000 of the Series B Debentures at the conversion price of \$0.15.