



**AURA HEALTH INC.**

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 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 Chartered Professional Accountants of Canada 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)

	Notes	As at June 30, 2019 \$	As at December 31, 2018 \$
<b>Assets</b>			
<b>Current</b>			
Cash		854,402	155,117
Other receivables	6	919,650	27,539
Inventories	7	415,132	-
Prepaid expenses	8	37,057	93,656
Notes receivable	9	164,681	-
Other assets		106,866	-
Loans receivable	22	382,843	251,797
<b>Total Current Assets</b>		<b>2,880,631</b>	528,109
Assets classified as held for sale	9	-	163,525
Investments in associate	10	370,678	370,678
Investment in FSD Pharma	12	3,000,000	-
Property and equipment	4	18,665	-
Goodwill	4	6,737,001	-
<b>Total Assets</b>		<b>13,006,975</b>	1,062,312
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	11,18	777,373	423,077
Loans payable	12	3,203,478	-
Notes payable	13	663,484	-
Convertible debentures - current	14	-	630,679
<b>Total Current Liabilities</b>		<b>4,644,335</b>	1,053,756
Derivative liability	14	-	169,357
Provisions		278,532	-
Convertible debentures	14	366,668	329,519
<b>Total Liabilities</b>		<b>5,289,535</b>	1,552,632
<b>Equity</b>			
Share capital	15	13,215,767	3,899,096
Shares to be issued		-	6,356
Equity component of convertible debentures	14	63,491	63,491
Reserve for share-based payments	16	253,409	170,078
Reserve for warrants	17	1,680,981	673,058
Accumulated other comprehensive loss		(20,994)	(52,395)
Accumulated deficit		(7,507,532)	(5,250,004)
<b>Equity Attributable to Shareholders of Aura Health Inc.</b>		<b>7,685,122</b>	(490,320)
<b>Non-controlling interest</b>		<b>32,318</b>	-
<b>Total Equity</b>		<b>7,717,440</b>	(490,320)
<b>Total Liabilities and Equity</b>		<b>13,006,975</b>	1,062,312
Nature of operations and going concern	1		
Commitments	19		
Subsequent events	23		

Approved on behalf of the Board of Directors:

“Al Quong” (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 and six months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	Notes	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
		\$	\$	\$	\$
<b>Revenue</b>					
Sales revenue		294,788	-	294,788	-
Cost of goods sold	7	8,388	-	8,388	-
<b>Gross Margin</b>		<b>286,400</b>	<b>-</b>	<b>286,400</b>	<b>-</b>
<b>Expenses</b>					
Management and consulting fees	18	181,257	10,000	376,257	10,000
Professional fees	18	607,204	114,229	791,295	136,929
Office and general		(1,355)	389	1,910	657
Filing fees		23,862	3,955	38,780	3,955
Travel and promotion		93,402	4,569	218,002	4,569
Other expenses		55,555	-	55,555	-
Share-based compensation	16	451,754	-	508,153	1,813
		(1,411,679)	(133,142)	(1,989,952)	(157,923)
<b>Other Income (Expenses)</b>					
Foreign exchange (loss) gain		(43,605)	13,145	(73,957)	28,771
Gain on sale	9	6,843	-	6,843	-
Finance cost	13,14,22	(249,190)	(51,296)	(288,301)	(100,476)
Fair value change in derivative liability	14	55,800	2,650	(166,243)	6,300
		(230,152)	(35,501)	(521,658)	(65,405)
<b>Net Loss from Continuing Operations</b>		<b>(1,355,431)</b>	<b>(168,643)</b>	<b>(2,225,210)</b>	<b>(223,328)</b>
<b>Discontinued Operations</b>					
Equity loss from joint ventures		-	(48,736)	-	(105,915)
<b>Loss on Discontinued Operations</b>		<b>-</b>	<b>(48,736)</b>	<b>-</b>	<b>(105,915)</b>
<b>Net Loss</b>		<b>(1,355,431)</b>	<b>(217,379)</b>	<b>(2,225,210)</b>	<b>(329,243)</b>
<b>Other Comprehensive Income (Loss)</b>					
Exchange gain (loss) on translation of foreign operations		13,929	(10,914)	(20,994)	(22,773)
<b>Net Loss and Comprehensive Loss</b>		<b>(1,341,502)</b>	<b>(228,293)</b>	<b>(2,246,204)</b>	<b>(352,016)</b>
<b>Total Net Loss and Comprehensive Loss attributable to:</b>					
Shareholders of Aura Health Inc.		(1,387,749)	(217,379)	(2,257,528)	(329,243)
Non-controlling interest	4	32,318	-	32,318	-
<b>Net Loss and Comprehensive Loss</b>		<b>(1,355,431)</b>	<b>(217,379)</b>	<b>(2,225,210)</b>	<b>(329,243)</b>
<b>Weighted Average Shares Outstanding</b>					
- Basic and diluted		70,302,088	16,630,000	56,705,990	16,630,000
<b>Loss per Share</b>					
- Basic and diluted - Continuing operations		\$ (0.019)	\$ (0.010)	\$ (0.039)	\$ (0.013)
- Basic and diluted - Discontinued operations		\$ -	\$ (0.003)	\$ -	\$ (0.006)

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 and six months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	Notes	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
		\$	\$	\$	\$
<b>Operating Activities</b>					
Net loss for the period		(1,355,431)	(217,379)	(2,225,210)	(329,243)
Adjustments for non-cash items:					
Share-based compensation	16	451,754	-	508,153	1,813
Fair value change in derivative liability	14	(55,800)	(2,650)	166,243	(6,300)
Equity loss from joint ventures - discontinued operations		-	48,736	-	105,915
Finance cost	13,14,22	248,095	51,296	287,243	100,476
Gain of on sale of assets held for sale	9	(6,843)	-	(6,843)	-
Other income		(6,356)		(6,356)	
Foreign exchange (gain) loss		4,413	(2,287)	21,579	(7,299)
		(720,168)	(122,284)	(1,255,191)	(134,638)
Net change in non-cash working capital items:					
Other receivables	6	(364,912)	(1,601)	(393,014)	(4,547)
Inventories	7	(166,170)	-	(166,170)	-
Prepaid expenses	8	14,324	-	60,238	-
Other assets		97,248	-	97,248	-
Accounts payable and accrued liabilities	11	(643,320)	(17,504)	(591,556)	(100,834)
<b>Cash Flows (used in) Operating Activities</b>		<b>(1,782,998)</b>	<b>(141,389)</b>	<b>(2,248,445)</b>	<b>(240,019)</b>
<b>Financing Activities</b>					
Proceeds from private placement	15	-	-	1,724,100	-
Share issue costs	15	(263,016)	-	(301,340)	-
Proceeds received on subscriptions	15	2,756,900	-	4,740,000	-
Commissions paid on subscriptions	15	(67,197)	-	(224,625)	-
Interest payment made on debentures	14	(44,186)	-	(72,000)	-
Proceeds from notes payable	13	-	-	600,000	-
Proceeds from Bridge Facility	12	3,000,000	-	3,000,000	-
Exercise of options	15	26,000	-	26,000	-
Exercise of warrants	15	37,500	-	38,119	-
<b>Cash Flows from Financing Activities</b>		<b>5,446,001</b>	<b>-</b>	<b>9,530,254</b>	<b>-</b>
<b>Investing Activities</b>					
Advances made on acquisition target	22	-	-	(133,610)	-
Acquisition of Pharmadrug	4	(4,041,748)	-	(7,101,848)	-
Cash acquired on business combination	4	618,498	-	618,498	-
<b>Cash Flows (used in) Investing Activities</b>		<b>(3,423,250)</b>	<b>-</b>	<b>(6,616,960)</b>	<b>-</b>
<b>Increase (decrease) in cash</b>		<b>239,754</b>	<b>(141,389)</b>	<b>664,849</b>	<b>(240,019)</b>
Effects of exchange rate changes on cash		14,177	(10,914)	34,436	(22,773)
Cash, beginning of period		600,471	388,986	155,117	499,475
<b>Cash, end of period</b>		<b>854,402</b>	<b>236,683</b>	<b>854,402</b>	<b>236,683</b>

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

For the six months ended June 30, 2019 and 2018

(Expressed in Canadian Dollars)

	Share Capital		Reserves				Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Non- Controlling Interest	Total
	Number of Shares	Amount	Shares to be Issued	Conversion Component of convertible debentures	Reserve for Share-Based Payments	Reserve for Warrants				
	#	\$	\$	\$	\$	\$				
<b>Balance, December 31, 2017</b>	<b>16,630,000</b>	<b>410,749</b>	<b>6,356</b>	<b>32,043</b>	<b>80,000</b>	<b>188,922</b>	<b>3,861</b>	<b>(1,364,480)</b>	-	<b>(642,549)</b>
Share-based compensation (Note 16)	-	-	-	-	1,813	-	-	-	-	1,813
Exchange (loss) on translating foreign operations	-	-	-	-	-	-	(22,773)	-	-	(22,773)
Net loss for the period	-	-	-	-	-	-	-	(327,430)	-	(327,430)
<b>Balance, June 30, 2018</b>	<b>16,630,000</b>	<b>410,749</b>	<b>6,356</b>	<b>32,043</b>	<b>81,813</b>	<b>188,922</b>	<b>(18,912)</b>	<b>(1,691,910)</b>	-	<b>(990,939)</b>
<b>Balance, December 31, 2018</b>	<b>31,072,567</b>	<b>3,899,096</b>	<b>6,356</b>	<b>63,491</b>	<b>170,078</b>	<b>673,058</b>	<b>(52,395)</b>	<b>(5,250,004)</b>	-	<b>(490,320)</b>
Units and warrants issued on private placement (Notes 15 and 17)	33,039,452	5,558,496	-	-	-	905,604	-	-	-	6,464,100
Compensation options issued on private placement	-	-	-	-	-	366,620	-	-	-	366,620
Broker warrants issued on private placement (Note 17)	-	-	-	-	-	7,224	-	-	-	7,224
Share issue costs (Notes 15 and 17)	-	(452,422)	-	-	-	(382,405)	-	-	-	(834,827)
Broker warrants issued on private placement (Note 17)	-	-	-	-	-	122,178	-	-	-	122,178
Issuance on conversion of debentures (Notes 15 and 16)	4,000,000	897,520	-	-	-	-	-	-	-	897,520
Warrants exercised (Note 15)	254,125	49,417	-	-	-	(11,298)	-	-	-	38,119
Options exercised (Note 15)	260,000	39,000	-	-	(13,000)	-	-	-	-	26,000
Share exchange (Note 11)	14,376,130	3,187,161	-	-	-	-	-	-	-	3,187,161
Share issuance for service (Note 15)	300,000	37,500	-	-	-	-	-	-	-	37,500
Share-based compensation (Note 16)	-	-	-	-	96,331	-	-	-	-	96,331
Reversal of shares to be issued	-	-	(6,356)	-	-	-	-	-	-	(6,356)
Exchange gain on translating foreign operations	-	-	-	-	-	-	31,401	-	-	31,401
Net loss for the period	-	-	-	-	-	-	-	(2,257,528)	32,318	(2,225,210)
<b>Balance, June 30, 2019</b>	<b>83,302,274</b>	<b>13,215,767</b>	-	<b>63,491</b>	<b>253,409</b>	<b>1,680,981</b>	<b>(20,994)</b>	<b>(7,507,532)</b>	<b>32,318</b>	<b>7,717,440</b>

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

June 30, 2019 and 2018

(Expressed in Canadian Dollars)

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### **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 markets. On May 17, 2019, the Company acquired an 80% equity interest in Pharmadrug Production GmbH (“Pharmadrug”), a German pharmaceutical distribution company (see Note 4 for details). The Company previously owned a 30% interest in four (4) medical marijuana clinics in the United States (the “US”), for which the Company had since disposed of (see Note 9).

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 continued on with the business 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 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 June 30, 2019, the Company had a working capital deficiency of \$1,763,704 (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 June 30, 2019. The Company expects to have sufficient cash to fund continuing operations through this fiscal year and beyond, as a result of various financing initiatives which were completed during the period. The Company is also actively monitoring cash forecasts and managing performance against its forecasts.

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 classifications of statements of financial position 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.

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 August 29, 2019.

## **AURA HEALTH INC.**

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

June 30, 2019 and 2018

(Expressed in Canadian Dollars)

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### **2. BASIS OF PRESENTATION (continued)**

#### **(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 subsidiaries: Aura Health Corp., Green Global Properties Inc. (“Green Global”) which is formed in the State of Delaware, and Pharmadrug from Germany.

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 unaudited condensed interim 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”), while the functional currency of Pharmadrug is the Euro (“EUR”).

#### **(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:

##### *Business combination*

In a business acquisition, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the acquisition date at their respective fair values. The date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree – the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date. Management exercises judgment in considering all pertinent facts and circumstances in identifying the acquisition date.

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

June 30, 2019 and 2018

(Expressed in Canadian Dollars)

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### **2. BASIS OF PRESENTATION (continued)**

#### **(e) Significant Accounting Judgments and Estimates (continued)**

##### *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.

##### *Fair value of financial assets and financial liabilities*

Fair value of financial assets and financial liabilities on the unaudited condensed interim consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life and discount rates.

##### *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.

##### *Expected credit losses on financial assets*

Determining an allowance for expected credit losses ("ECL") for all debt financial assets not held at fair value through profit or loss requires management to make assumptions about the historical patterns for the probability of default, the timing of collection and the amount of incurred credit losses, which are adjusted based on management's judgment about whether economic conditions and credit terms are such that actual losses may be higher or lower than what the historical patterns suggest.

## **AURA HEALTH INC.**

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

June 30, 2019 and 2018

(Expressed in Canadian Dollars)

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### **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 noted in the Company's audited consolidated financial statements for the year ended December 31, 2018, unless otherwise noted below.

#### **(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 standards and amendments, the Company had assessed that there was no material impact on its 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.

##### *IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”)*

IFRIC 23 was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The IFRS Interpretations Committee (“IFRIC”) concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

#### **(b) Recent Accounting Pronouncements**

At the date of authorization of these unaudited condensed interim consolidated financial statements, the IASB and the IFRIC 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.

## AURA HEALTH INC.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

June 30, 2019 and 2018

(Expressed in Canadian Dollars)

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### 4. BUSINESS COMBINATION

On January 24, 2019, the Company entered into a binding letter of intent (“LOI”) to acquire 80% of Pharmadrug, a German pharmaceutical distribution company, for EUR 5,000,000 (the “Pharmadrug Acquisition”). The seller, Anquor Pharmaceuticals Ug (“Anquor”), retains a 20% interest in Pharmadrug.

On February 27, 2019, the Company entered into a definitive share purchase agreement (the “Share Purchase Agreement”) with Pharmadrug, which superseded the LOI. The final purchase price for the Pharmadrug Acquisition is EUR 4,600,000. In addition, Aura advanced EUR 400,000 to Pharmadrug as a shareholder loan to assist Pharmadrug to maintain appropriate levels of working capital. The Share Purchase Agreement 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.

On May 17, 2019, the Company completed the Pharmadrug Acquisition. Goodwill of \$6,737,001 is not tax deductible and was recognized due to the expected synergies from combining operations of the Company and Pharmadrug. The Company determined that the Pharmadrug Acquisition was a business combination in accordance to the definition of IFRS 3 – Business Combination, and as such, has accounted for it in accordance with this standard, with Aura being the acquirer on the acquisition date of May 17, 2019.

Closing of the Pharmadrug Acquisition satisfied one (1) of the escrow release conditions of the offering of Subscription Receipts as defined in Note 15.

Included in the Company’s financial results were \$294,788 in revenue and \$129,271 in net income before tax attributable to the shareholders of Aura, from the acquisition date to June 30, 2019.

The following table sets forth a preliminary allocation of the purchase price to the assets acquired, based on the preliminary estimate of fair value:

<b>Purchase Price Consideration Paid</b>	
	\$
Cash	7,101,848
	<b>7,101,848</b>
<b>Net Identifiable Assets Acquired</b>	
	\$
Cash	618,498
Other receivables	499,097
Inventories	248,962
Prepaid expenses	3,639
Other assets	204,115
Property and equipment	18,855
Accounts payable and accrued liabilities	(946,962)
Provisions	(281,357)
	<b>364,847</b>
<b>Total net identifiable assets acquired</b>	<b>364,847</b>
<b>Goodwill</b>	<b>6,737,001</b>

## AURA HEALTH INC.

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### 5. REVERSE TAKEOVER TRANSACTION

On August 9, 2018, Lam  lee 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 was 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 as a continuation of the operations of Aura Health Corp., together with a deemed issuance of shares equivalent to the shares held by the former shareholders of Lam  lee.

Details of the RTO Transaction are presented as follows:

<b>Purchase Price Consideration Paid</b>	
	\$
Fair value of common shares issued <sup>(i)</sup>	1,497,083
Fair value of options issued <sup>(ii)</sup>	-
Fair value of warrants issued <sup>(iii)</sup>	238,606
	<b>1,735,689</b>
<b>Net Identifiable Assets Acquired</b>	
	\$
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)
<b>Excess of consideration paid over net assets acquired, representing a cost of the RTO Transaction</b>	<b>1,915,893</b>
Finders' compensation paid on closing of RTO Transaction <sup>(iv)</sup>	226,740
<b>Total RTO acquisition costs</b>	<b>2,142,633</b>

The Company has accounted for the RTO Transaction as an asset acquisition under the scope of IFRS 2 – Share-Based Payments (“IFRS 2”). 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:

- (i) The fair value of the 3,961,584 common shares, issued to former Lam  lee 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 Lam  lee shareholders was approximately 17.3%.
- (ii) 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.
- (iii) 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.

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### 5. REVERSE TAKEOVER TRANSACTION (continued)

- (iv) 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.
- (v) 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.

### 6. OTHER RECEIVABLES

	June 30, 2019	December 31, 2018
	\$	\$
Sales tax receivables	112,239	22,039
Trade receivables	801,911	-
Other receivables	5,500	5,500
	<b>919,650</b>	<b>27,539</b>

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 (1) year.

### 7. INVENTORIES

As at June 30, 2019, the Company's inventories consisted of finished goods held with Pharmadrug. During the six months ended June 30, 2019, inventories of \$8,388 were expensed and included in cost of goods sold (2018 – \$nil).

### 8. PREPAID EXPENSES

	June 30, 2019	December 31, 2018
	\$	\$
Advances made to suppliers	31,625	91,823
Other prepaid expenses	5,432	1,833
	<b>37,057</b>	<b>93,656</b>

### 9. NOTES RECEIVABLE

In October 2018, management approved the sale of the Company's 30% interest in the Sun Valley Clinics, which operate four (4) Clinics in the States of Nevada, Arizona and Florida, in the US. At the time of 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.

## AURA HEALTH INC.

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### 9. NOTES RECEIVABLE (continued)

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 Company recognized a gain of \$6,843 (USD \$5,131) upon disposition of its interests in the Sun Valley Clinics.

The disposition of Aura's interest in the Sun Valley Clinics satisfied one (1) of the escrow release conditions of the offering of Subscription Receipts as defined in Note 15.

As at June 30, 2019, \$164,681 was owed to the Company under the Promissory Note, comprised of the principal amount of \$163,588 and accrued interest of \$1,094.

#### *Assets held for sale*

As at December 31, 2018, the investments in the Sun Valley Clinics were classified as held for sale on the consolidated statements of financial position.

### 10. INVESTMENT IN ASSOCIATE

On August 22, 2018, the Company entered into a 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 June 30, 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 June 30, 2019, the Company did not have any equity interest in HolyCanna, and as a result, it had not recorded any equity pickup during the six months ended June 30, 2019.

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### 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:

	<b>June 30, 2019</b>	December 31, 2018
	\$	\$
Less than 90 days	<b>254,790</b>	230,470
Greater than 90 days	<b>522,583</b>	192,607
	<b>777,373</b>	423,077

### 12. LOANS PAYABLE

On May 9, 2019, the Company received a \$3 million bridge facility (the “Bridge Facility”) from a private lender (the “Lender”), for which the proceeds were applied on closing the Pharmadrug Acquisition. The Bridge Facility bears interest at a rate of 18% per annum and matures on September 24, 2019. As security for the Bridge Facility, the Company collateralized certain shares of FSD Pharma Inc. (“FSD”) to the Lender (as defined below).

#### *Share Exchange Agreement*

On April 17, 2019, the Company entered into a share exchange transaction (the “Share Exchange Agreement”) with FSD, a licensed producer under the Cannabis Act (Canada), whereby, among other things, FSD issued \$3 million of FSD Class B Subordinate Voting Shares (the “FSD Shares”) to the Company in exchange (the “Share Exchange”) for \$3 million of Aura common shares (“Aura Shares”).

To secure 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 securities of FSD.

The Share Exchange Agreement governing the Share Exchange contains adjustment provisions that depend on the price of the FSD Shares at the end of the statutory hold period. If the volume weighted average trading price (the “VWAP”) of FSD Shares is lower than the issuance price as of the hold period expiry date, FSD will issue the Company additional number of FSD shares.

As at June 30, 2019, a total balance under the Bridge Facility of \$3,203,478 (December 31, 2018 – \$nil) was owed by the Company, comprised of the principal amount of \$3,000,000 and accrued interest of \$203,478.

### 13. NOTES 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 June 30, 2019, the amounts in outstanding principal of \$600,000 (December 31, 2018 – \$nil) and accrued interest of \$63,484 (2018 – \$nil) were owed by the Company, and the Notes are payable on demand.

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### 14. 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. 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 at a conversion price of \$0.15. The debentures and the derivative liability balances of \$315,854 and \$175,600, respectively, had been derecognized as a result.

On April 29, 2019, \$300,000 of the remaining Series B Debentures were also converted into 2,000,000 at a conversion price of \$0.15. The debentures and the derivative liability balances of \$246,065 and \$160,000, respectively, had been derecognized as a result.

During the six months ended June 30, 2019, a loss of \$166,243 was included in fair value change in derivative liability for the period up to the conversion date (2018 – gain of \$3,600).

#### (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.

The following table reflects the continuity of convertible debentures as at June 30, 2019:

	\$
<b>Balance, December 31, 2018</b>	<b>960,198</b>
Interest and accretion expense	40,390
Conversion of debentures into common shares	(561,920)
Payment of interest on debentures	(72,000)
<b>Balance, June 30, 2019</b>	<b>366,668</b>



## AURA HEALTH INC.

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### 15. SHARE CAPITAL

#### *Authorized share capital*

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

	<b>June 30, 2019</b>	December 31, 2018
	\$	\$
Issued: 83,302,274 common shares (December 31, 2018 – 31,072,567)	<b>13,215,767</b>	3,899,096

#### *Share capital transactions for the six months ended June 30, 2019*

On January 10, 2019, the Company closed a non-brokered private placement (the “Private Placement”) of 11,493,998 units (“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 14(a)).

On February 27, 2019, the Company closed the first tranche (“Tranche 1”) of an offering of 8,726,954 Subscription Receipts (the “Offering”) 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 entitles 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 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 \$224,625 in cash commissions and issued 610,888 Finder’s Warrants.

On April 17, 2019, the Company closed the second tranche (“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. Upon satisfaction of certain Escrow Release Conditions, each Subscription Receipt entitles 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 2, the Company paid \$262,990 in cash commissions and issued 897,295 Finder’s Warrants.

On April 17, 2019, 13,562,387 common shares were issued in pursuant to the Share Exchange Agreement with FSD (see Note 12).

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

On April 29, 2019, the Company issued 2,000,000 common shares as a result of the conversion of the remaining \$300,000 of principal of the Series B Debentures at the conversion price of \$0.15 (see Note 14(a)).

On May 9, 2019, 813,743 common shares were issued as compensation to the Lead Agent of the Share Exchange in the form of a corporate finance and structuring fee. The grant date fair value of the common shares issued was \$187,161 based on the closing share price on the day of issuance, and the amount was recorded as a share-based compensation on the unaudited interim condensed consolidated statements of loss.

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### **15. SHARE CAPITAL (continued)**

*Share capital transactions for the six months ended June 30, 2019 (continued)*

On June 21, 2019, 300,000 common shares were issued as a result of a service agreement. The grant date fair value of the common shares issued was \$37,500 based on the closing share price on the day of issuance, and the amount was recorded as share-based compensation on the unaudited interim condensed consolidated statements of loss.

During the six months ended June 30, 2019, 254,125 common shares were issued as a result of the exercise of warrants for cash proceeds of \$38,119.

*Share capital transactions for the six months ended June 30, 2018*

There were no share capital transactions during the six months ended June 30, 2018.

*Escrow Release Conditions*

On closing of the Offering, the proceeds were placed in escrow with Capital Transfer Agency, ULC, on behalf of the subscribers of the Subscription Receipts, to be released to the Company upon satisfaction of certain escrow release conditions (the “Escrow Release Conditions”), which include, among other things, that:

- (i) All conditions prior to the completion of the Pharmadrug Acquisition have been satisfied or waived in accordance with the terms of the Pharmadrug Acquisition Agreement;
- (ii) There have been no material amendments of the terms and conditions of the Pharmadrug Acquisition Agreement which have not been approved by Mackie Research Capital Corporation, the Lead Agent of the Offering (the “Lead Agent”);
- (iii) The Company has received all necessary regulatory and other approvals regarding the Offering and the Pharmadrug Acquisition;
- (iv) The Company has disposed of all its interests in cannabis operations located in the US;
- (v) Lead Agent is satisfied with its due diligence review with respect to the business, assets, financial condition, operating results, affairs and prospects of the Company; and
- (vi) The Company has delivered all required documents as requested by the Lead Agent.

On May 9, 2019 (the “Escrow Release Date”), the Company satisfied all Escrow Release Conditions pursuant to the Offering.

### **16. RESERVE FOR SHARE-BASED PAYMENTS**

The Company maintains a stock option plan (the “Plan”) whereby certain key 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 June 30, 2019, the Company had 4,690,227 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.

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### 16. RESERVE FOR SHARE-BASED PAYMENTS (continued)

The following summarizes the stock option activity for the six months ended June 30, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	#	\$	#	\$
<b>Outstanding, beginning of period</b>	<b>2,250,000</b>	<b>0.16</b>	1,600,000	0.10
Granted	1,650,000	0.23	50,000	0.10
Exercised	(260,000)	0.10	-	-
Expired	-	-	(50,000)	0.10
<b>Outstanding, end of period</b>	<b>3,640,000</b>	<b>0.19</b>	1,600,000	0.10
<b>Exercisable, end of period</b>	<b>2,965,000</b>	<b>0.18</b>	1,600,000	0.10

#### *Option grants for the six months ended June 30, 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 vested 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 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2019.

On May 24, 2019, the Company granted 500,000 options to consultants at an exercise price of \$0.22, expiring on May 24, 2021. 125,000 options vested immediately on grant, with 125,000 options to be vested on a quarterly basis thereafter. 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 1.56% and an expected life of 2 years. The grant date fair value attributable to these options of \$20,159 of which \$8,912 was recorded as share-based compensation in connection with the vesting of these options during the six months ended June 30, 2019.

On May 28, 2019, the Company granted 600,000 options to a consultant at an exercise price of \$0.22, expiring on May 28, 2021. Of the 600,000 options granted, 475,000 options vested immediately on grant, with the remaining 125,000 options to be vested depending on certain performance conditions as follows:

- 62,500 options to be vested after the first cannabis plant is potted at the HolyCanna's greenhouse facility in Netanya, Israel (the "Facility");
- 62,500 options to be vested after the first commercial harvest at the Facility.

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 1.53% and an expected life of 2 years. The grant date fair value attributable to 475,000 options of \$22,209 was recorded as stock-based compensation in connection with the vesting of these options during the six months ended June 30, 2019.

In accordance with IFRS 2, the fair value treatment of performance-based vesting conditions is dependent on whether they are market or non-market conditions. As there are no set timelines in place to when the two (2) respective conditions will be met, they are considered non-market conditions and therefore not allowed to recognize fair value.

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### 16. RESERVE FOR SHARE-BASED PAYMENTS (continued)

*Option grants for the six months ended June 30, 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 six months ended June 30, 2018.

The following table summarizes information of stock options outstanding and exercisable as at June 30, 2019:

<b>Date of expiry</b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Exercise price</b>	<b>Weighted average remaining contractual life</b>
	<b>#</b>	<b>#</b>	<b>\$</b>	<b>Years</b>
August 16, 2020	1,340,000	1,340,000	0.10	1.13
January 17, 2021	550,000	550,000	0.24	1.55
May 24, 2021	500,000	125,000	0.22	1.90
May 28, 2021	600,000	475,000	0.22	1.91
September 24, 2021	650,000	475,000	0.31	2.24
	<b>3,640,000</b>	<b>2,965,000</b>	<b>0.19</b>	<b>1.63</b>

### 17. RESERVE FOR WARRANTS

The following summarizes the warrant activity for the six months ended June 30, 2019 and 2018:

	<b>June 30, 2019</b>		<b>June 30, 2018</b>	
	<b>Number of warrants</b>	<b>Weighted average exercise price</b>	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Outstanding, beginning of period</b>	<b>7,012,172</b>	<b>0.41</b>	3,875,000	0.16
Issued from private placement of units	<b>5,869,159</b>	<b>0.25</b>	-	-
Issued from private placement of subscription receipts	<b>12,280,912</b>	<b>0.28</b>	-	-
Issued from Share Exchange Agreement	<b>813,743</b>	<b>0.22</b>	-	-
Warrants exercised	<b>(254,125)</b>	<b>0.15</b>	-	-
Warrants expired	<b>(20,000)</b>	-	-	-
<b>Outstanding, end of period</b>	<b>25,701,861</b>	<b>0.31</b>	3,875,000	0.16

*Warrant issuances for the six months ended June 30, 2019*

On January 10, 2019, the Company issued 5,746,999 warrants in conjunction with the Private Placement, as disclosed in Note 15. 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.

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### 17. RESERVE FOR WARRANTS (continued)

*Warrant issuances for the six months ended June 30, 2019 (continued)*

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.

On February 27, 2019, the Company closed Tranche 1 of the Offering of 8,726,954 Subscription Receipts and issued 4,363,479 warrants. Each warrant is exercisable at \$0.28 into one (1) common share of the Company for a period of 24 months from the Escrow Release Date. On May 9, 2019, the Company satisfied all Escrow Release Conditions. The grant date fair value of the warrants issued was estimated to be \$268,280 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 1.58% and an expected life of two (2) years.

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 entitles the holder to receive 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 \$122,178 using the Black-Scholes valuation model with the following assumptions: market price of \$0.20, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two (2) years.

On April 17, 2019, the Company closed Tranche 2 of the Offering of 12,818,500 Subscription Receipts and issued 6,409,250 warrants under the same terms as Tranche 1 of the Offering. Each warrant is exercisable at \$0.28 into one (1) common share of the Company for a period of 24 months from the Escrow Release Date, which was May 9, 2019. The grant date fair value of the warrants issued was estimated to be \$394,060 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 1.58% and an expected life of two (2) years.

In connection with Tranche 2 of the Offering, 897,295 Finder's Warrants in the form of Subscription Receipt were issued as compensation to the Agents. The Finder's Warrants will entitle the holder to receive 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 \$179,459 using the Black-Scholes valuation model with the following assumptions: market price of \$0.20, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.58% and an expected life of two (2) years.

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD. In connection to the Share Exchange, 813,743 Compensation Options were issued to the Agent as corporate finance and structuring fees. The grant date fair value of the Compensation Options issued was estimated to be \$81,264 using the Black-Scholes valuation model with the following assumptions: share price of \$0.23, expected volatility of 77% based on comparable companies, expected dividend yield of 0%, risk-free interest rate of 1.66% and an expected life of two (2) years.

*Warrant issuances for the six months ended June 30, 2018*

There were no warrant issuances during the six months ended June 30, 2018.

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### 17. RESERVE FOR WARRANTS (continued)

The following table summarizes information of warrants outstanding as at June 30, 2019:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
August 9, 2019	408,163	1.00	0.11
December 22, 2019	80,000	0.60	0.48
April 21, 2020	1,052,996	0.20	0.81
August 9, 2020	2,301,873	0.75	1.11
August 9, 2020	78,015	0.49	1.11
August 16, 2020	2,350,000	0.15	1.13
August 16, 2020	467,000	0.10	1.13
January 10, 2021	5,869,159	0.25	1.53
April 17, 2021	813,743	0.22	1.80
May 9, 2021	12,280,912	0.28	1.86
	<b>25,701,861</b>	<b>0.31</b>	<b>1.56</b>

### 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 six months ended June 30, 2019 and 2018 were as follows:

	2019	2018
	\$	\$
Consulting fees	<b>150,000</b>	10,000
Professional fees	<b>80,000</b>	24,550
Share-based compensation (Note 16)	<b>16,421</b>	1,813
	<b>246,421</b>	36,363

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 six months ended June 30, 2019, the Company was charged \$60,000 (2018 – \$nil) for services provided by the CEO. As at June 30, 2019, \$39,550 (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 six months ended June 30, 2019, the Company was charged \$60,000 (2018 – \$nil) for services provided by the COO. As at June 30, 2019, \$33,900 (December 31, 2018 – \$34,699) owing to the COO was included in accounts payable and accrued liabilities.

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

#### *Key management personnel compensation (continued)*

During the six months ended June 30, 2019, the Company incurred professional fees of \$80,000 (2018 – \$24,550) 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 June 30, 2019, \$39,550 was owed to Branson (December 31, 2018 – \$8,475) was included in accounts payable and accrued liabilities.

During the six months ended June 30, 2019, David Posner, the Chairman of the Company, charged consulting fees of \$30,000 (2018 – \$nil) for services provided to the Company. As at June 30, 2019, \$66,000 (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, former director of Aura. The options vested immediately on grant, and the grant date fair value of \$16,421 attributable to these options was recorded as share-based compensation during the six months ended June 30, 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 share-based compensation during the six months ended June 30, 2018.

#### *Units subscription*

During the six months ended June 30, 2019, the CEO had subscribed for 400,000 Units from the Private Placement, and 500,000 Subscription Receipts from Tranche 1 of the Offering. The CEO also holds title to 350,000 units of the Company subscribed in prior years.

During the six months ended June 30, 2019, the COO had subscribed for 100,000 Units from the Private Placement, and 150,000 Subscription Receipts from Tranche 2 of the Offering. The COO also holds title to 200,000 units of the Company subscribed in prior years.

#### *Notes payable*

As per disclosed in Note 13, the CEO, the COO and the Chairman had advanced \$200,000 each to the Company under the Notes on January 28, 2019.

As at June 30, 2019, the amounts in outstanding principal of \$600,000 (December 31, 2018 – \$nil) and accrued interest of \$63,484 (2018 – \$nil) were owed by the Company, and the Notes are payable on demand.

### 19. COMMITMENTS

On April 17, 2019, the Company entered into the Share Exchange Agreement with FSD, whereby, among other things, FSD issued \$3 million of FSD Shares to the Company under the Share Exchange for \$3 million of Aura Shares.

Since the FSD Shares were issued on a private placement basis, Aura had to secure the Bridge Facility in order to close the Pharmadrug Acquisition. As part of 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 securities of FSD.

In order to protect Aura in its \$3 million obligation to the Bridge Facility, FSD agreed to provide a “make-whole” payment to the Company, immediately following the end of the applicable statutory hold period for the FSD Shares, payable in the form of additional FSD Shares issued from treasury, having a value equal to the excess, if any, of the per share price at which the FSD Shares were initially issued to Aura (the “Issue Price”) over the VWAP of the FSD Shares for the 10 consecutive trading days.

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### **19. COMMITMENTS (continued)**

As part of the Share Exchange Agreement, Aura and FSD entered into a consulting agreement whereby Aura will assist FSD with obtaining euGMP certification at the existing licensed facility of FSD. Pharmadrug also entered into a 5-year supply agreement (the "Supply Agreement") with FSD whereby, upon proper euGMP certification Pharmadrug will commit to purchase a total of 1,000 kilograms ("Kg") over the first two (2) years of Canadian produced cannabis product from FSD at a price of \$7.00 per gram FOB Germany (subject to downward adjustment should market exigencies dictate), provided that the product is saleable in the German market. The Supply Agreement calls for Pharmadrug to commit to purchase 1,000 Kg per year for an additional three (3) years at a price to be mutually determined by both parties at that time.

### **20. 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, reserves for share-based payments and warrants, accumulated other comprehensive loss and accumulated deficit. As at June 30, 2019, the Company's capital consisted of an equity of \$7,717,440 (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.

### **21. FINANCIAL INSTRUMENTS RISKS**

#### *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 14.

#### *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).



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### 21. FINANCIAL INSTRUMENTS RISKS (continued)

#### *Fair value hierarchy (continued)*

As at June 30, 2019, the Company does not have any financial instruments measured at fair value after initial recognition, except for cash included at Level 1.

#### *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.

#### *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 June 30, 2019, the Company had a cash balance of \$854,402 (December 31, 2018 – \$155,117) to settle current liabilities of \$4,644,335 (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 has investments denominated in foreign currencies, notably in EUR and USD. With the Company's expansion into Europe through the Pharmadrug Acquisition, 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 June 30, 2019, the Company had no hedging agreements in place with respect to floating interest rates.

### 22. PROPOSED TRANSACTION

#### *CannabiSendak*

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;

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### 22. PROPOSED TRANSACTION (continued)

#### *CannabiSendak (continued)*

- 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).

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 June 30, 2019, the Company had advanced total Loans of \$377,668 (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 \$382,843 (December 31, 2018 – \$241,404). The fair value was determined by using a discount rate of 12%.

As at June 30, 2019, the value of the Loan was \$382,843 (December 31, 2018 – \$251,796) and an amount of \$19,015 (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

### 23. SUBSEQUENT EVENTS

#### *Sun Valley Clinics*

On July 30, 2019, payments terms of the Promissory Note were amended as per agreed between the Company and Empower, as follows:

- Additional USD \$15,000 to be paid by Empower, beyond the original USD \$125,000 and its interest, if the principal amount is paid after July 31, 2019, but before August 15, 2019.
- Additional USD \$30,000 to be paid by Empower, beyond the original USD \$125,000 and its interest, if the principal amount is paid after August 15, 2019, but before August 31, 2019.

The Company fully expects to receive the payment from Empower.

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**23. SUBSEQUENT EVENTS (continued)**

*Share Exchange Agreement*

On August 19, 2019, the statutory hold period on the FSD Shares under the Share Exchange Agreement ended.