Spirit Bear Capital Corp.
(A Capital Pool Company)

Consolidated Financial Statements
For the year ended January 31, 2019
(Expressed in Canadian Dollars)

SPIRIT BEAR CAPITAL CORP.
(A Capital Pool Company)
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Spirit Bear Capital Corp.

Opinion

We have audited the consolidated financial statements of Spirit Bear Capital Corp. (the "Company"), which comprise the statements of consolidated financial position as at January 31 2019 and 2018, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the consolidated financial statements, which indicates that the Company incurred a net loss of $113,818 during the year ended January 31, 2019. As stated in Note 1, this event or condition, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Rakesh Patel.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

May 13, 2019

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SPIRIT BEAR CAPITAL CORP.
(A Capital Pool Company)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

ASSETS	January 31, 2019	January 31, 2018
Current		
Cash and cash equivalents (Note 3)	$ 963,641	$ 621,924
Receivables	1,417	2,777
Loan receivable (Note 9)	10,500	-
Credit facility (Note 9)	3,500	-
Prepaid expense	5,541	12,656
TOTAL ASSETS	**$ 984,599**	**$ 637,357**
LIABILITIES		
Current		
Trade payables and accrued liabilities (Note 4)	$ 89,646	$ 100,370
SHAREHOLDERS' EQUITY		
Share capital (Note 5)	1,248,051	776,267
Reserve (Note 5)	42,150	42,150
Accumulated deficit	(395,248)	(281,430)
	894,953	536,987
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 984,599**	**$ 637,357**

Nature and continuance of operations (Note 1)
Subsequent events (Note 10)

These financial statements are authorized for issuance by the Board of Directors on May 13, 2019.

On behalf of the Board of Directors:

"Zula Kropivnitski"	"John LaGourgue"
Director	Director

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

SPIRIT BEAR CAPITAL CORP.
(A Capital Pool Company)
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the years ended January 31, 2019	2018
Expenses		
Bank charges	$ 127	$ 175
Professional fees	122,933	27,070
Office administration	18,001	15,553
Promotion	3,604	-
Regulatory and shareholders' service	21,218	14,119
	165,883	(56,917)
Other items		
Qualifying transaction (Note 1)	-	(62,488)
Write off professional fee	56,778	-
Write off receivable	(5,036)	-
Interest income	323	673
Loss and comprehensive loss for the year	**$ (113,818)**	**$ (118,732)**
Basic and diluted loss per share	**$ (0.01)**	**$ (0.02)**
Weighted average number of common shares outstanding – basic and diluted (Note 5)	**22,032,889**	**11,609,875**

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

SPIRIT BEAR CAPITAL CORP.
(A Capital Pool Company)
Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the years ended January 31, 2019	2018
Cash flows used in operating activities		
Net loss for the year	$ (113,818)	$ (118,732)
Changes in working capital items		
Receivable	(993)	(1,195)
Prepaid expenses	7,115	(11,770)
Trade payables and accrued liabilities	(8,371)	91,870
	(116,067)	(39,827)
Cash used in investing activities		
Loan receivable	(10,500)	-
Credit facility	(3,500)	-
	(14,000)	-
Cash flow from financing activity		
Shares issued for cash, net of cash share issue costs	471,784	507,018
Increase in cash and cash equivalents	341,717	467,191
Cash and cash equivalents, beginning of year	621,924	154,733
Cash and cash equivalents, end of year	$ 963,641	$ 621,924

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

SPIRIT BEAR CAPITAL CORP.
(A Capital Pool Company)
Consolidated Statements of Changes in Shareholders’ Equity
(Expressed in Canadian Dollars)

	Number of Shares Issued	Share Capital	Reserve	Accumulated Deficit	Total Shareholders' Equity
Balance at January 31, 2017	8,000,012	$ 269,249	$ 42,150	$ (162,698)	$ 148,701
Shares issued, net of share issue costs (Note 5)	10,800,000	507,018	-	-	507,018
Net loss for the year	-	-	-	(118,732)	(118,732)
Balance at January 31, 2018	18,800,012	776,267	42,150	(281,430)	536,987
Shares issued, net of share issue costs (Note 5)	10,000,000	471,784	-	-	471,784
Net loss for the year	-	-	-	(113,818)	(113,818)
Balance at January 31, 2019	**28,800,012**	**$ 1,248,051**	**$ 42,150**	**$ (395,248)**	**$ 894,953**

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Spirit Bear Capital Corp. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on November 8, 2011. The Company is classified as a Capital Pool Company (“CPC”) while the principal business is the identification and evaluation of assets or a business (the “Qualifying Transaction” (“QT”)) and, once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval, if required, and acceptance by regulatory authorities. As the Company was unable to complete its QT by the filing deadline, the Company requested to transfer the listing of the Company’s common shares to the NEX trading board of the TSX Venture Exchange (“TSX-V”) and reinstate the Company’s shares for trading. The Company is presently listed and trading on the NEX under the symbol SBG.H.

On January 31, 2019, the Company entered into an amalgamation agreement (the “Amalgamation Agreement”) with Gaia Grow Corp. (“Gaia”), a privately held arm’s length company continued under the laws of the *Business Corporations Act* (British Columbia). Gaia is in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada. See Note 9.

The Company had previously entered into an agreement which contemplated the Company acquiring all of the issued and outstanding shares of FinX Solutions Inc. To January 31, 2018, the Company had incurred legal fees totaling $62,488 relating to the proposed transaction, which was terminated on May 15, 2018.

The Company’s head office, principal address and registered and records office is located at Suite 303, 750 West Pender Street Vancouver, BC V6C 2T7.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s continuing operations, as intended, are dependent upon its ability to identify, evaluate and negotiate an acquisition of, a participation in or an interest in properties, assets or businesses. Such a transaction will be subject to regulatory approval and may be subject to shareholder approval. Management believes the Company has sufficient working capital to maintain its activities for the upcoming fiscal year.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and the Company’s wholly-owned subsidiary 1193805 B.C. Ltd. (“1193805 B.C.”). All inter-company transactions and balances have been eliminated.

Statement of compliance

These 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”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

Basis of presentation

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Company considers cash to include cash on deposit and highly liquid short-term investments bearing variable interest rates that are readily convertible to known amounts of cash and generally have original maturities within three months. Interest earned is recognized immediately in profit or loss.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

Basic and diluted loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the years presented, this calculation proved to be anti-dilutive.

Share-based compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial instruments

The Company adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") on a retroactive basis in accordance with the transitional provisions. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The standard promulgates a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial assets on the transition date; therefore, comparative figures have not been restated.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

<u>(i) Classification</u>

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

<u>(ii) Measurement</u>

<u>Financial assets and liabilities at amortized cost</u>
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

<u>Financial assets and liabilities at FVTPL</u>
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise.

<u>Debt investments at FVOCI</u>
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

<u>Equity investments at FVOCI</u>
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

<u>(iii) Impairment of financial assets at amortized cost</u>

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

(iii) Impairment of financial assets at amortized cost (continued)

initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities
The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income. Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards and amendments not yet adopted

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the year ended January 31, 2019 and have not been applied in preparing these financial statements.

Amendments to IFRS 11, "Joint Arrangements"

Amendments to International Accounting Standards ("IAS") 1, "Presentation of Financial Statements"

IAS 12 – Income Taxes: amendments to IAS 12 to clarify the recognition of a deferred tax asset for unrealized losses.

The Company has not early adopted these revised standards and does not believe that these standards will have a material impact on the financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's financial statements.

3. CASH AND CASH EQUIVALENTS

	January 31, 2019	January 31, 2018
Cash at bank	$ 834,587	$ 493,512
Demand deposit	129,054	128,412
	$ 963,641	**$ 621,924**

4. TRADE PAYABLES AND ACCRUED LIABILITIES

	January 31, 2019	January 31, 2018
Trade payables	$ 52,546	$ 16,036
Accrued liabilities	37,100	84,334
	$ 89,646	**$ 100,370**

5. SHARE CAPITAL AND RESERVE

Authorized Share Capital:

Unlimited number of common shares without par value.

Issued Share Capital:

On December 6, 2018 the Company completed a forward share split on the basis of 1:2. All share amounts are stated on a post forward share split basis.

On October 9, 2018 the Company closed a private placement and issued a total of 10,000,000 common shares at a price of $0.0475 per share, for gross proceeds of $475,000. The Company paid $3,216 in share issuance costs.

On October 3, 2017 the Company closed a private placement and issued a total of 10,800,000 common shares at a price of $0.0475 per share, for gross proceeds of $513,000. The Company paid $5,982 in share issuance costs.

5. SHARE CAPITAL AND RESERVE (continued)

Escrow Shares

There are 2,000,012 shares (January 31, 2017 – 2,000,012) subject to escrow restrictions until completion of a QT and will then be released from escrow in tranches over 36 months. The 2,000,012 escrow shares are not included in the calculation of the weighted average number of shares outstanding to determine loss per share.

Stock Options

The Company has an incentive stock options plan in place under which it is authorized to grant options to directors and employees to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 5 years and vesting periods are determined by the Board of Directors.

There were no stock option transactions outstanding at January 31, 2019 and 2018. No stock options were granted during the years ended January 31, 2019 and 2018.

Reserve

The reserve account records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivable and accounts payables approximate their carrying value. The Company's other financial instrument, being cash and cash equivalents, is measured at fair value using Level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) Credit risk:
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents held in bank accounts. The Company has deposited the cash and cash equivalents with a high credit quality financial institution as determined by rating agencies. The risk of loss is low.

(b) Liquidity risk:
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due. Trade payables and accrued liabilities are due within the current operating period. The Company has a sufficient cash balance to settle current liabilities.

6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk:
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company is not exposed to market risk.

(d) Interest rate risk:
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk, from time to time, on its cash balances. Surplus cash, if any, is placed on call with financial institutions and management actively negotiates favorable market related interest rates.

7. CAPITAL DISCLOSURE AND MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the completion of a QT. Therefore, the Company monitors the level of risk incurred in its expenditures relative to its capital structure.

The Company considers its capital structure to include shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the potential underlying assets. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms and approved by the TSX-V.

As a CPC, the Company is subject to externally imposed capital requirements as outlined in the TSX-V Policy 2.4 ("Policy 2.4") and summarized below:

1) No salary, consulting, management fees or similar remuneration of any kind may be paid directly or indirectly to a related party of the Company or a related party of a QT;

2) Gross proceeds realized from the sale of all securities issued by a CPC may only be used to identify and evaluate assets or businesses and obtain shareholder approval for a QT;

3) No more than the lesser of $210,000 and 30% of the gross proceeds from the sale of securities issued by a CPC may be used for purposes other than to identify and evaluate QT;

4) After the completion of its IPO and until the completion of a QT, a CPC may not issue any securities unless written acceptance of the TSX-V is obtained before the issuance of the securities.

There were no changes in the Company's approach to capital management during the year ended January 31, 2019.

(Expressed in Canadian Dollars)

8. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	January 31, 2019	January 31, 2018
	$	$
Loss before income taxes	(113,818)	(118,732)
Combined Canadian federal and provincial statutory rate	27.00%	27.00%
Expected income tax recovery at statutory tax rates	(30,731)	(32,058)
Share issuance costs	(497)	(323)
Unrecognized benefit of non-capital losses	31,228	32,381
Total deferred taxes	-	-

The significant component of the Company's unrecognized deductible temporary differences are as follows:

	January 31, 2019	January 31, 2018
	$	$
Non-capital losses	495,572	375,001
Share issue costs	6,162	4,786
	501,734	**379,786**

The temporary differences expire as follows:

	Non-capital losses
	$
2032	12,117
2033	40,753
2034	48,584
2035	50,264
2036	46,749
2037	56,605
2038	119,928
2039	120,572
	495,572

9. PROPOSED TRANSACTION

In accordance with the terms of the Amalgamation Agreement (Note 1), the Company, 1193805 B.C. and Gaia will combine their respective businesses by way of a three-cornered amalgamation (the "Transaction"), following which Gaia will continue as a wholly owned subsidiary of the Company. Following completion of the Transaction, it is anticipated that the amalgamated company will change its name to Gaia Grow Corp. and the resulting issuer will continue to carry on the business of Gaia.

In connection with completion of the Transaction, it is a condition to closing that Gaia completes a private placement financing through the offering of up to 40 million subscription receipts (the "Receipts") at a price of 10 cents per receipt for gross proceeds of up to $4 million. Proceeds of the financing will be held in escrow pending completion of the Transaction. Immediately prior to completion of the Transaction, each Receipt will automatically be converted into one common share of Gaia. Upon completion of the Transaction, the holders of common shares in the capital of Gaia will receive one common share of the resulting issuer in exchange for each outstanding common share of Gaia.

9. PROPOSED TRANSACTION (continued)

The Transaction will constitute a QT for the Company under Policy 2.4. Closing of the Transaction is subject to a number of conditions including completion of the financing, approval of the TSX-V, approval of the Company's shareholders and satisfaction of other closing conditions as are customary in transactions of this nature.

During the year ended January 31, 2019, the Company provided a loan of $10,500 to Gaia. The loan is non-interest bearing and repayable by May 31, 2019.

Subject to the approval of the TSX-V, the Company has also offered a credit facility to Gaia. It is expected that total advances under the credit facility will be limited to $200,000, and that the credit facility will be secured against a general charge over all of the assets of Gaia. The credit facility does not bear interest, but will be repayable in full by Gaia in the event the Transaction does not proceed.