GAIA GROW CORP.

Condensed Interim Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2019 and 2018

Expressed in Canadian dollars

Unaudited – prepared by management

GAIA GROW CORP.
Index to Condensed Interim Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2019 and 2018

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company’s independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity’s auditor.

GAIA GROW CORP.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian dollars)
(Unaudited)

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash	$ 53,007	$ 31
Restricted cash (Note 12)	3,982,683	-
Accounts receivable (Note 4)	8,145	-
Biological assets (Note 5)	119,587	-
Loans receivable (Note 6)	-	10,250
Other receivables (Note 9)	489	50
Total assets	$ 4,163,911	$ 10,331
Liabilities and shareholders' deficit		
Current liabilities		
Accounts payable	$ 307,752	$ -
Share subscriptions received (Note 12)	3,982,683	-
Loans payable (Note 7)	210,500	10,500
Due to related party (Note 8)	124,000	-
Total liabilities	4,624,935	10,500
Shareholders' deficit		
Share capital (Note 9)	490	51
Deficit	(461,514)	(220)
Total shareholders' deficit	(461,024)	(169)
Total liabilities and shareholders' deficit	$ 4,163,911	$ 10,331

Nature of business and continuance of operations (Note 1)
Subsequent event (Note 13)

Approved and authorized for issuance on behalf of the Board of Directors on August 23, 2019 by:

/s/ Frederick Pels	/s/ James Tworek
Frederick Pels, Director	James Tworek, Director

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

GAIA GROW CORP.

Condensed Interim Consolidated Statements of Net and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended June 30,2019	Period from June 22, 2018 to June 30, 2018	Six months ended June 30, 2019
Expenses			
Advertising and promotion	$ -	$ -	$ 844
Bank charges	194	-	263
Land payments	20,600	-	20,600
Office and miscellaneous	-	-	57
Professional fees	132,450	-	135,950
Total expense	(153,244)	-	(157,714)
Loss on acquisition of Gaia Bio	-		(303,580)
Net and comprehensive loss for the period	$ (153,244)	$ -	$ (461,294)
Net loss per share, basic and diluted	$ (0.00)	$ -	$ (0.00)
Weighted average shares outstanding, basic and diluted	111,600,000	510,000	85,942,541

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

GAIA GROW CORP.
Condensed Interim Consolidated Statement of changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

	Share capital				
	Number of shares	Amount	Deficit	Total shareholders' deficit
Balance, June 22, 2018 (date of incorporation)	510,000	$ 51	$ -	$ 51
Forward split	59,490,000	-	-	-
Net loss for the period	-	-	-	-
Balance, June 30, 2018	60,000,000	$ 51	$ -	$ 51
Balance, December 31, 2018	60,000,000	$ 51	$ (220)	$ (169)
Issued for cash	51,600,000	439	-	439
Net loss for the period	-	-	(461,294)	(461,294)
Balance, June 30, 2019	111,600,000	$ 490	$ (461,514)	$ (461,024)

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

GAIA GROW CORP.
Condensed Interim Consolidated Statements of cash flows
(Unaudited)
(Expressed in Canadian dollars)

	Six months ended June 30, 2019	Period from June 22, 2018 to June 30, 2018
Operating activities		
Net loss for the period	$ (461,294)	$ -
Items not affecting cash	303,580	-
Adjustments:		
Other receivables	7,681	(50)
Accounts payable	80,701	-
Due to related party	124,000	-
Net change in biological assets	(119,587)	-
Net cash used in operating activities	(64,919)	(50)
Investing activity		
Acquisition of Gaia Bio	(200,000)	-
Cash received with Gaia Bio	8	-
Net cash used in investing activity	$ (199,992)	$ -
Financing activities		
Loans payable	317,887	-
Shares issued for cash	-	51
Net cash provided by financing activities	317,887	51
Increase in cash	$ 52,976	$ 1
Cash, beginning of period	31	-
Cash, end of period	$ 53,007	$ 1

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

1. Nature of Business and Continuance of Operations

Gaia Grow Corp. (the "Company") was incorporated on June 22, 2018 under "Gaia Investments Inc." and subsequently changed its name to Gaia Grow Corp. The Company's head office is located at 10th Floor, 595 Howe Street, Vancouver, BC, Canada. Its principal business activity was the identification and evaluation of companies, assets or businesses with a view to completing a business combination. On January 31, 2019, the Company entered into an amalgamation agreement (the "Amalgamation Agreement") with Spirit Bear Capital Corp. and its wholly owned subsidiary 1193805 B.C. Ltd. (collectively known as "SBG"), a public company listed on the TSX Venture Exchange ("TSX-V"). In accordance with the terms of the Amalgamation Agreement, the Company and SBG will combine their respective businesses by way of a three-cornered amalgamation (the "Transaction"). Subsequent to June 30, 2019 the Transaction was finalized.

Additionally, on March 22, 2019, as last amended on June 7, 2019, the Company acquired all of the issued and outstanding shares of Gaia Bio-Pharmaceuticals Inc. ("Gaia Bio") for the following consideration:

(a) $200,000, paid in a series of tranches, as a non-refundable deposit to the shareholders of Gaia Bio ($76,000 paid and $124,000 has been recorded in due to related party). The amount due to related party is non-interest bearing and repayable upon demand;
(b) the issuance of 7% of the issued and outstanding common shares of the Company (estimated to be an aggregate of 8,400,000 common shares of the Company) (pending);
(c) a conditional payment of $1,600,000 in cash or equivalent in common shares of the Company, in the event that the common shares of the Company are valued less than $2,000,000 at any time during the 60-day period after the Company is in receipt of a license to cultivate from Health Canada;
(d) the Company will assume a business loan in the amount of $10,625 (currently in the amount of $6,123); and
(e) the Company will assume Gaia Bio's commitment pursuant to an Offer to Purchase Agreement ("Offer to Purchase") whereby Gaia Bio agreed to purchase a plot of land (the "Property") located in Lamont County, Alberta for the purpose of growing hemp. The purchase price, as last amended, is $190,000 and 5% of the total number of common shares of Gaia Bio, subject to the condition that the number of shares may change depending on whether more shares are issued. Closing of the transaction is to be 30 days after Gaia Bio receives Health Canada's pre-approval "letter-to-build" ("LTB"), which has not yet been obtained. Further, the Company will pay $1,000/month in purchase extension fees until closing of the Offer to Purchase.

Consequently, Gaia Bio became a wholly-owned subsidiary of the Company.

1. Nature of Business and Continuance of Operations (continued)

Subsequent to the Transaction, the combined entity will continue as a wholly-owned subsidiary of SBG. The resulting issuer will change its name to Gaia Grow Corp. and continue to carry on the business of Gaia Bio, which is in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada. Closing of the transaction is subject to a number of conditions including completion of a proposed 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.

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown. As at June 30, 2019, the Company had not yet generated any revenue, has a working capital deficit of $461,024, and has accumulated losses of $461,514 since inception.

The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations, to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. These factors indicate the existence of a material uncertainty that may cast significant doubt the Company's ability to continue as a going concern. These condensed interim consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Basis of Preparation

(i) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34"). These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim consolidated financial statements were approved by the Board of Directors of the Company on August 23, 2019.

2. Basis of Preparation (continued)

(ii) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for biological assets which are measured at fair value, as explained in the accounting policies below.

Historical cost is fair value of the consideration given in exchange for goods and services generally based upon the fair value at the time of the transaction of the consideration given in exchange for assets.

(iii) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company's and its subsidiaries functional currency.

(iv) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its subsidiary Gaia Bio on a consolidated basis after elimination of intercompany transactions and balances. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power to direct the relevant activities of the entity.

3. Significant Accounting Policies

(i) Cash and cash equivalents

Cash and cash equivalents include cash-on-hand and deposits held with financing institutions. The Company considers short-term investments to be investing activity.

(ii) Biological assets

While the Company's biological assets are within the scope of IAS 41 Agriculture, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 Inventories. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation of manufacturing assets. All direct and indirect costs of biological assets are capitalized as they are incurred. Unrealized fair value gains/losses on growth of biological assets are recorded on the consolidated statements of income and comprehensive income. Biological assets are measured at their fair value less costs to sell on the consolidated statement of financial position.

3. Significant Accounting Policies (continued)

(iii) Inventories

Inventories for finished goods and packaging, and supplies are initially valued at cost, and subsequently at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventories for obsolete, redundant and slow-moving goods and any such inventories identified are written down to net realizable value. The direct and indirect costs of finished goods inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred, and they are subsequently recorded within cost of sales on the consolidated statements of income and comprehensive income at the time cannabis is sold. Inventory is measured at lower of cost or net realizable value on the statement of financial position.

(iv) Property, plant and equipment

Property, plant and equipment are initially recognized at acquisition cost or manufacturing cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by the Company's management. Property, plant and equipment are subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is recognized on a straight-line basis to write down the cost less estimated residual value of buildings, computer equipment and growing equipment. The following useful lives are applied:

Building	25 years
Growing equipment	10 years
Computer equipment	5 years
Vehicles	5 years
Furniture and fixtures	10 years

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in profit or loss within other income or other expenses.

Assets in process are transferred to the appropriate asset class when available for use and depreciation of the assets commences at that point.

An asset's residual value, useful life and depreciation method are reviewed during each financial year and adjusted if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3. Significant Accounting Policies (continued)

(v) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognized. Goodwill is carried at cost less accumulated impairment losses.

(vi) Assets held for sale

Assets and liabilities held for sale are no longer depreciated and are presented separately in the statement of financial position at the lower of their carrying amount and fair value less costs to sell. An asset is regarded as held for sale if its carrying amount will be recovered principally through a sale transaction, rather than through continuing use. For this to be the case, the asset must be available for immediate sale and its sale must be highly probable.

(vii) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment are reviewed for indicators of impairment. Goodwill is reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs of disposal, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss equal to the amount by which the carrying amount exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(viii) Financial instruments

Financial instruments consist of financial assets and liabilities and are initially measured at fair value. Financial assets and liabilities are recognized in the consolidated statements of financial position when the Company has become party to the contractual provision of the instruments. The accounting policies for financial instruments are described below and the composition of the Company’s financial instruments and related risks are disclosed in Notes 10.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

3. Significant Accounting Policies (continued)

(1) Financial assets

Measurement of financial assets in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss (FVTPL), available-for-sale, held-to-maturity, or loans and receivables as defined by IAS 39 Financial Instruments.

(a) At Fair Value Through Profit or Loss ("FVTPL")

Assets in this category are derivatives or other assets classified as held-for-trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has no financial assets that are at FVTPL.

(b) Available For Sale

Assets in this category are non-derivative financial assets that are either designated as available-for-sale or do not fit into one of the other categories. After initial recognition, available-for-sale assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Company has no financial assets that are classified as available-for-sale.

(c) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Company has cash and accounts receivables which are classified as loans and receivables.

3. Significant Accounting Policies (continued)

(d) Held-to-Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Company has the positive intention and ability to hold the financial asset to maturity, other than those initially designated as held- for-trading, available-for-sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Company's short-term investments are classified as held-to-maturity financial assets.

(2) Financial liabilities

Measurement of financial liabilities subsequent to initial recognition depends on whether they are classified as FVTPL or other financial liabilities as defined by IAS 39 Financial Instruments.

(a) At FVTPL

Financial liabilities in this category are derivatives or liabilities classified as held-for-trading or designated as FVTPL upon initial recognition subject to meeting certain conditions. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has no financial liabilities at FVTPL.

(b) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held-for-trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has accounts payable and accrued liabilities and long-term debt which are classified as other financial liabilities.

(3) Transaction costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition, and thereafter, are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate – i.e. amortized through profit or loss over the term of the related instrument.

3. Significant Accounting Policies (continued)

(4) Impairment of financial assets

Financial assets, other than those classified as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after initially recognizing the financial asset, the present value of estimated future cash flows determined based on the instrument's original effective interest rate are lower than the asset's carrying amount. The financial asset's carrying amount is reduced through the use of an allowance account. Subsequent recoveries of amounts previously written off are adjusted against the allowance account. Changes in the carrying amount of the allowance account are recognized in earnings or loss.

(5) Compound instruments

The component parts of compound instruments (convertible debt) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual agreements and the definitions of a financial liability and equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or on the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to share capital. If the conversion option remains unexercised at the maturity date of the convertible debt, the balance recognized in equity will be transferred to accumulated deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible debentures are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the term of the convertible debentures using the effective interest method.

3. Significant Accounting Policies (continued)

(6) Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

(ix) Share-based payments

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense in profit or loss over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value for options is determined using the Black-Scholes pricing model and fair value for Restricted Share Units (RSUs) is determined using the Company's share price at the grant date.

Expected forfeitures are estimated at the date of the grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. The impact of the revision of the original estimate is recognized in profit or loss such that the cumulative expenses reflects the revised estimate.

For stock options granted to non-employees, the expense is measured at the fair value of the good and services received except when the fair value cannot be estimated in which case it is measured at the fair value of the equity instrument granted.

Consideration paid by employees or non-employees on the exercise of options is recorded as share capital and the related share-based expense is transferred from share-based reserve to share capital.

(x) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give effect to all dilutive potential common shares outstanding during the period. The dilutive effect of warrants and options is calculated using the treasury stock method. The if-converted method which assumes that all convertible debt has been converted if the debt is in-the-money is used to calculate the dilutive effect of convertible debt. Anti-dilutive effects of potential conversions of securities are ignored for this calculation.

3. Significant Accounting Policies (continued)

(xi) Revenue recognition

Revenue from the sale of cannabis is recognized when the Company has transferred the significant risks and rewards of ownership to the customer, the amount of revenue can be reliably measured and it is probable that the Company will receive the previously agreed upon payment. Significant risks and rewards are generally considered to be transferred when the product leaves the Company's premises. Revenue from providing services are recognized when the service is performed. Revenue is recognized at the fair value of the consideration received or receivable.

(xii) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the condensed interim consolidated financial statements.

Income tax expense (recovery) in profit or loss is the sum of current and deferred tax as explained below.

Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

Deferred taxes are accounted for under the liability method and are the taxes expected to be payable or recoverable on the temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax losses and tax credits can be utilized. Deferred tax is calculated on a non-discounted basis, using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The carrying amounts of individual deferred tax assets are reviewed at the end of each reporting period but are only recognized for the proportion probable that sufficient taxable profits will be available for such assets to be recovered.

3. Significant Accounting Policies (continued)

Deferred tax is not recognized for temporary differences related to the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and, differences arising on the initial recognition of goodwill.

(xiii) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported in finance costs. No borrowing costs were capitalized during the periods presented.

(xiv) Discontinued operations

A disposal group is presented as a discontinued operation if all of the following conditions are met: 1) it is a component of the Company for which operations and cash flows can be clearly distinguished operationally and financially from the rest of the Company, 2) it represents a separate major line of business of operations that either has been disposed of or is classified as held for sale; or it is part of a single coordinated plan to dispose of a separate major line of business of operations.

Assets in a disposal group classified as held for sale are presented separately in the consolidated statements of financial position. Discontinued operations are presented separately from continuing operations in the consolidated statements of income (loss) and consolidated statement of cash flows.

(xv) Critical accounting estimates and judgments

The preparation of the condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

3. Significant Accounting Policies (continued)

The following are the estimates made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

(1) Biological assets and inventory

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales prices, wastage, oil conversion factor and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value. Refer to Notes 7 and 8 for further information.

(2) Estimated useful lives of property, plant and equipment

Amortization of property, plant and equipment requires estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

(3) Share-based payments

In determining the fair value of options and related expense, the Company makes such estimates as the expected life of the option, the volatility of the Company's share price, the risk-free interest rate, and the rate of forfeitures. Refer to Note 12 for further information.

(4) Warrants

In determining the value of warrants, the Company estimates the value of the common shares, the volatility of the Company's share price and the risk-free interest rate.

(5) Compound Instruments

In calculating the fair value allocation between the liability component and the equity component of the Company's unsecured convertible debentures (compound instruments), the Company was required to make estimates and use judgment in determining an appropriate discount rate on the debentures to arrive at a fair value. The identification of convertible debentures' components is based on interpretation of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of interest on the liability component. The determination of fair value of the liability is also based on a number of assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments. Refer to Note 11 for further information.

3. Significant Accounting Policies (continued)

(6) Goodwill

Goodwill impairment testing requires management to make estimates in the impairment testing model. On a quarterly basis, the Company tests whether goodwill is impaired, based on an estimate of its recoverable amount.

(7) Assets held for sale

Assets held for disposal and disposal groups are measured at the lower of their carrying amount and their fair value less costs to sell. The determination of the fair value less costs to sell includes the use of management estimates and assumptions that tend to be uncertain.

(xvi) New standards and interpretations adopted

Disclosure Initiative (Amendments to IAS 7)
This amendment was issued on December 18, 2014. The amendment requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including non-cash changes and changes arising from cash flows. The amendment was effective for annual reporting periods beginning on or after January 1, 2017.

There has been no effect on the Company's financial statements.

Amendments to IAS 12 – Income Taxes
This amendment provides clarity on recognition of deferred tax assets for unrealized losses to address diversity in practice. The amendment was effective for annual reporting periods beginning on or after January 1, 2017.

There has been no effect on the Company's financial statements.

(xvii) New and amended standards issued but not yet effective

IFRS 2 – Share-based Payments
The amendment clarifies how to account for the effects of vesting and non-vesting conditions on the measurement of cash- settled share-based payments, share-based payment transactions with a net settlement feature and a modification to the terms and conditions that changes the classification of the transactions. The amendment is effective for annual periods beginning on or after January 1, 2018. This will be effective for the Company beginning September 1, 2018.

Based on the Company's preliminary assessment, the adoption of the new standard is not expected to have a significant impact on its consolidated financial statements.

3. Significant Accounting Policies (continued)

<u>IFRS 9 – Financial Instruments</u>
A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement has been issued and is effective for annual periods beginning on or after January 1, 2018. The standard contains requirements in the following areas: classification and measurement, impairment, hedge accounting and de-recognition. This new standard supersedes all prior versions of IFRS 9.

Based on the Company's preliminary assessment, the standard may impact the classification short-term investments and allowance for doubtful accounts and the Company will apply the expected credit loss model to measure impairment. At this time, the adoption of the new standard is not expected to have a significant impact on its consolidated financial statements.

<u>IFRS 15 – Revenue from Contracts with Customers</u>
In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customer ("IFRS 15"), which provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and must be applied retrospectively. Early adoption is permitted but this will be effective for the Company beginning September 1, 2018.

The Company reviewed its current and past contracts and at this time has determined the adoption of the new standard is not expected to have a material impact on its consolidated financial statements. However, any binding contracts entered into going forward may have an impact on the timing of revenue recognition if the contracts contain, for example, fixed supply obligations or quantity carry-over provisions.

<u>IFRS 16 – Leases</u>
In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), which establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 applies to annual reporting periods beginning on or after January 1, 2019. This will be effective for the Company beginning September 1, 2019.

The Company reviewed its current and past leases. Reclassification of leases for office space and computer hardware will result in the establishment of additional right-of-use assets and lease liabilities on the balance sheet, as well as changes in the timing and presentation of lease-related expenses on the statement of income. The Company is still evaluating the effect of this standard on the consolidated financial statements but expects there will be no material impact.

4. Accounts receivable

Accounts receivable represent receivable from a government agency.

(Expressed in Canadian dollars)

5. Biological assets

The Company measures biological assets consisting of hemp plants at fair value less costs to sell up to the point of harvest, which becomes the basis for the cost of finished goods inventories after harvest.

The changes in the carrying value of biological assets as of June 30, 2019 are as follows:

	Biological assets
Carrying amount, December 31, 2018	$ -
Additions during the period	119,587
Carrying amount, June 30, 2019	$ 119,587

6. Loans Receivable

As at December 31, 2018, the Company had a loan due from Gaia Bio in the amount of $10,250. The loan was eliminated on acquisition of Gaia Bio by the Company.

7. Loans Payable

As at June 30, 2019, the Company has a loan payable of $10,500 (December 31, 2018 - $10,500) to SBG. The loan is non-interest bearing and repayable by May 31, 2019.

As at June 30, 2019, SBG has advanced the Company $200,000 (December 31, 2018 - $Nil) under the terms of a credit facility. The credit facility is secured against a general charge over the assets acquired of Gaia Bio (Note 1). The credit facility does not bear interest, but will be payable in full by the Company in the event the Transaction does not proceed.

8. Due to Related Party

During the period ended June 30, 2019, a party related to the Company paid $124,000 to the shareholders of Gaia Bio (Note 1). The amount was recorded in due to related party. The amount due to related party is non-interest bearing and repayable upon demand. The amount was repaid subsequent to the period ended June 30, 2019.

9. Share Capital

Authorized: Unlimited number of common shares without par value.

On January 18, 2019, the Company completed a forward share split on the basis of 1:117.647. All share amounts are stated on a post forward share split basis.

(Expressed in Canadian dollars)

9. Share Capital (continued)

Issued during the period ended June 30, 2019:

During the period ended June 30, 2019, the Company issued 438,600 common shares for proceeds of $439 and completed a forward share split on the basis of 1:117.647, resulting in a total of 51,600,000 common shares being issued, of which $439 was recorded in other receivables at June 30, 2019.

During the year ended December 31, 2018, the Company issued 60,000,000 (510,000 pre-forward share split) common shares at $0.0001 for proceeds of $51, of which $50 was recorded in other receivables at December 31, 2018.

10. Financial Instruments and Risks

(a) Fair Values

The fair value measurements use a fair value hierarchy that reflects the significance of the inputs used in making measurements. The level in the hierarchy within which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value hierarchy has the following levels:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as of June 30, 2019 as follows:

	June 30, 2019	December 31, 2018
	Level 1	Level 1
Cash	$ 53,007	$ 31

The methods of measuring each of these financial assets have not changed during the past year. The Company does not have any financial assets or liabilities measured at fair value based on inputs other than quoted prices (Level 2) or unobservable inputs (Level 3). The fair values of financial instruments measured at amortized cost approximate their carrying amounts.

10. Financial Instruments and Risks (continued)

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and loan receivable. The Company limits its exposure to credit loss by placing its cash with high credit quality financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate

The Company is not exposed to any significant foreign exchange risk.

(d) Interest Rate Risk

The Company is not exposed to any significant interest rate risk.

(e) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company raising equity financing in a timely manner and by maintaining sufficient cash in excess of anticipated needs. Liquidity risk has been assessed as high.

11. Capital Management

The Company manages its capital to maintain its ability to continue as a going concern and to provide returns to shareholders and benefits to other stakeholders. The capital structure of the Company consists of cash and equity, comprised of issued share capital and share-based payment reserve.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues or by undertaking other activities as deemed appropriate under the specific circumstances.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year to the six months ended June 30, 2019.

12. Share Subscriptions Received

During the period ended June 30, 2019, the Company received share subscription receipts for a total of 39,826,827 shares at $0.10 per share for proceeds of $3,982,683. These proceeds are held in escrow pending closing of the Transaction with SBG (Note 1). Should the Transaction not close, funds will be returned to the subscribers.

13. Subsequent Event

Subsequent to June 30, 2019, the Company completed the Transaction with SBG.

In connection with completion of the Transaction, Gaia completed a private placement financing (Note 1 and 12) through the offering of 45,076,969 subscription receipts at a price of $0.10 per Receipt, for gross proceeds of $4,507,697. Immediately prior to completion of the Transaction, each receipt was automatically converted into one common share of Gaia (the "Receipt Shares"), and the proceeds from the Financing were released from escrow. Following the release of the proceeds, Gaia paid finders' fees of $86,065 to certain parties who had introduced subscribers to the Financing.

Pursuant to the terms of the Transaction, the Company has issued 120,000,000 common shares to the existing shareholders of Gaia, as well as 45,076,969 common shares to the existing holders of the Receipt Shares. The Company has also issued 6,325,000 common shares (the "Finders' Shares") to an arms'-length party who assisted the Company in facilitating the Transaction. Following completion of the Transaction, the Company has 200,201,981 common shares outstanding.

In connection with the Transaction, an aggregate of 101,553,529 common shares of the Company are subject to a Tier 2 Surplus Escrow Agreement, 21,176,471 common shares are subject to a Tier 2 Value Escrow Agreement, and 2,000,012 common shares are subject to a CPC Escrow Agreement, in accordance with the policies of the TSX Venture Exchange (the "Exchange"). The Finders' Shares are subject to a four-month-and-one-day statutory hold period in accordance with applicable Canadian securities laws.

The Company has also assumed an obligation owing to former shareholders of Gaia Bio, a wholly-owned subsidiary of Gaia, in which such shareholders may be entitled to an additional payment in the event the 8,400,000 common shares issued by Gaia to acquire Gaia Bio are valued at less than $2,000,000 at any time during the sixty day period following Gaia Bio receiving a licence to cultivate cannabis. In such a case, an additional payment of $1,600,000 will be owing to the former shareholders of Gaia Bio, to be satisfied in cash or through the issuance of common shares of the Company based upon the greater of: (i) the thirty-day volume-weighted average trading price of the common shares of the Company on the Exchange at the time of issuance, and (ii) $0.10 per share. Any common shares of the Company issued to satisfy this payment will be subject to a Tier 2 Value Escrow Agreement received additional share subscription receipts for 5,250,142 shares at $0.10 per share for proceeds of $525,014.