

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)
Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018
Expressed in Canadian dollars

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)
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For the Years Ended December 31, 2019 and 2018

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gaia Grow Corp. (formerly Spirit Bear Capital Corp.)

Opinion

We have audited the consolidated financial statements of Gaia Grow Corp. (formerly Spirit Bear Capital Corp.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit 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 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 financial statements, which describes events or conditions that indicate 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 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 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 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 Financial Statements

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

In preparing the 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.

(cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the 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

April 28, 2020



An independent firm
associated with Moore
Global Network Limited

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 1,924,135	\$ 31
Receivables (Note 4)	79,451	50
Prepaid	83,654	-
Inventory (Note 6)	3,737,980	-
Loan receivable (Note 7)	-	10,250
Total current assets	5,825,220	10,331
Property (Note 8)	190,000	-
Total assets	\$ 6,015,220	\$ 10,331
Liabilities and shareholders' equity (deficit)		
Current liabilities		
Trade payables (Note 10)	\$ 81,966	\$ -
Accrued liabilities	31,500	-
Loan payable (Note 9 and 7)	-	10,500
Total liabilities	113,466	10,500
Shareholders' equity (deficit)		
Share capital (Note 13)	9,116,256	51
Reserve (Note 13)	277,980	-
Deficit	(3,492,482)	(220)
Total shareholders' equity (deficit)	5,901,754	(169)
Total liabilities and shareholders' equity (deficit)	\$ 6,015,220	\$ 10,331

Nature of business and continuance of operations (Note 1)
Subsequent events (Note 17)

Approved and authorized for issuance on behalf of the Board of Directors on April 28, 2020 by:

/s/ Frederick Pels
Frederick Pels, Director

/s/ James Tworek
James Tworek, Director

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

GAIA GROW CORP.**(Formerly Spirit Bear Capital Corp.)**

Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Year ended December 31, 2019	Period from June 22, 2018 (date of incorporation) to December 31, 2018
Expenses		
Advertising and promotion	\$ 105,289	\$ -
Consulting (Note 10)	729,448	-
Insurance	11,687	-
Insurance related to biological asset (Note 5)	235,148	-
Interest and extension fees (Note 8)	39,695	-
Management and directors' fees (Note 10)	82,500	-
Office and administration (Note 10)	117,068	220
Professional fees	226,828	-
Share-based compensation (Notes 10 and 13)	444,190	-
Transfer agent	7,917	-
Travel	36,250	-
Total expense	2,036,020	220
Other		
Other income and recoveries	(55,865)	-
Impairment (Note 11)	1,112,405	-
Listing expense (Note 12)	2,804,317	-
Unrealized gain on changes in fair value of biological assets (Note 5)	(2,404,615)	-
Total other	1,456,242	-
Net and comprehensive loss for the year	\$ (3,492,262)	\$ (220)
Net loss per share, basic and diluted	\$ (0.03)	\$ (0.00)
Weighted average shares outstanding, basic and diluted	102,036,426	60,000,000

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

GAIA GROW CORP.**(Formerly Spirit Bear Capital Corp.)**

Consolidated Statement of Changes in Shareholders' Equity (Deficit)

(Expressed in Canadian dollars)

	Share capital		Reserve	Deficit	Total shareholders' equity (deficit)
	Number of shares	Amount			
Balance, June 22, 2018 (date of incorporation)	510,000	\$ 51	\$ -	\$ -	\$ 51
Forward split (Note 13)	59,490,000	-	-	-	-
Net loss for the period	-	-	-	(220)	(220)
Balance, December 31, 2018	60,000,000	51	-	(220)	(169)
Shares issued for cash (Note 13)	51,600,000	439	-	-	439
Shares issued for acquisition of Gaia Bio (Note 11 and 13)	8,400,000	840,000	-	-	840,000
Recapitalization transaction (Note 12 and 13):					
Equity of Spirit Bear	28,800,012	2,880,001	-	-	2,880,001
Finders' shares	6,325,000	632,500	-	-	632,500
Shares issued for cash (Note 13)	44,076,969	4,407,697	-	-	4,407,697
Share issue costs (Note 13)	-	(140,632)	-	-	(140,632)
Share-based payments (Note 13)	1,000,000	100,000	-	-	100,000
Stock options granted (Note 13)	-	-	444,190	-	444,190
Stock options exercised (Note 13)	2,300,000	396,200	(166,210)	-	229,990
Net loss for the year	-	-	-	(3,492,262)	(3,492,262)
Balance, December 31, 2019	202,501,981	\$ 9,116,256	\$ 277,980	\$ (3,492,482)	\$ 5,901,754

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

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2019	Period from June 22, 2018 (date of incorporation) to December 31, 2018
Operating activities		
Net loss for the year	\$ (3,492,262)	\$ (220)
Items not affecting cash		
Share-based compensation	444,190	-
Share-based payment - impairment	840,000	-
Share-based payment - consulting fee	100,000	-
Listing expense	2,804,317	-
Unrealized gain on changes in fair value of biological assets	(2,404,615)	-
Adjustments:		
Receivables	(29,102)	(50)
Prepays	(83,275)	-
Inventory	(1,333,365)	-
Trade payables and accrued liabilities	113,456	-
Net cash used in operating activities	(3,040,656)	(270)
Investing activities		
Loan receivable	-	(10,250)
Cash acquired in RTO	657,506	-
Acquisition of property	(190,000)	-
Net cash provided by (used in) investing activities	467,506	(10,250)
Financing activities		
Repayment of loans	(250)	-
Proceeds from loan payable	-	10,500
Proceeds from exercise of stock options	230,000	-
Shares issued for cash, net of cash share issue costs	4,267,504	51
Net cash provided by financing activities	4,497,254	10,551
Increase in cash and cash equivalents	1,924,104	31
Cash and cash equivalents, beginning	31	-
Cash and cash equivalents, ending	\$ 1,924,135	\$ 31
Cash and cash equivalents are comprised of:		
Cash	\$ 1,793,780	\$ 31
Cash equivalents	130,355	-
	\$ 1,924,135	\$ 31

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

GAIA GROW CORP.

(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

1. Nature of Business and Continuance of Operations

Gaia Grow Corp. (formerly Spirit Bear Capital Corp.) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on November 8, 2011. The Company was listed on the TSX Venture Exchange (“TSX-V”) until April 15, 2020 when it was subsequently delisted and commenced trading on the Canadian Securities Exchange (“CSE”). The Company’s head and registered office is located at 10th Floor, 595 Howe Street, Vancouver, BC, Canada.

On July 23, 2019, the Company completed a reverse takeover transaction (the “RTO”), which was effected pursuant to an amalgamation agreement between Spirit Bear and Gaia Holdings Corp. (formerly Gaia Investments Inc.) (“Gaia Holdings”), a privately held arm’s length company continued under the laws of the *Business Corporations Act* (British Columbia). See Note 12.

On March 22, 2019, prior to the RTO, Gaia Holdings acquired all of the issued and outstanding common shares of Gaia Bio-Pharmaceuticals Inc. (“Gaia Bio”), a privately held arm’s length company continued under the laws of the *Business Corporations Act* (Alberta). See Note 11.

Subsequent to the RTO, the Company is in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for its next fiscal year.

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 about the Company’s ability to continue as a going concern. These 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. Realization values may be substantially different from carrying values as shown.

Further, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

These consolidated financial statements were approved by the Board of Directors of the Company on April 28, 2020.

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

2. Basis of Preparation

(i) Statement of Compliance and Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The financial statements have been prepared on a historical cost basis except for financial assets classified as fair value through profit or loss, which are measured at fair value. The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

(ii) Basis of Measurement

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

(iv) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. 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. The subsidiaries of the Company are as follows:

	Percentage owned	
	December 31, 2019	December 31, 2018
1193805 B.C. Ltd. ⁽¹⁾	100%	-
Gaia Holdings ⁽²⁾	100%	-
Gaia Bio ⁽²⁾	100%	-

⁽¹⁾ Incorporated on January 14, 2019.

⁽²⁾ Acquired on July 23, 2019. See Note 12.

The consolidated accounts include the accounts of Spirit Bear from July 23, 2019, the date of the RTO. The financial statements prior to this date include only the accounts of Gaia Holdings. Inter-company transactions and balances are eliminated upon consolidation.

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

2. Basis of Preparation

(v) Critical Accounting Judgments, Estimates and Assumptions

The preparation of the 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.

The preparation of the consolidated financial statements requires management to make judgments regarding going concern of the Company as discussed in Note 1.

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

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 plants up to the point of harvest, harvesting costs, selling costs, sales prices, wastage, oil conversion factor and expected yields of the plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value. Refer to Notes 5 and 6 for further information.

Share-based payments

In determining the fair value of options and related expenses, 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 13 for further information.

Reverse take-over

Refer to Note 12 for disclosure on the reverse takeover transaction, which included estimates on the fair value of consideration paid, along with an assessment of fair value of net assets acquired.

Recognition and valuation of deferred tax assets

The recognition of deferred tax assets is based upon whether it is probable that sufficient and suitable taxable profits will be available in the future or whether taxable temporary differences will reverse such that deferred tax assets can be utilized. Recognition therefore involves a degree of estimation and judgement regarding the future financial performance or the timing of the reversed deferred tax liabilities where deferred tax assets have been recognized.

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

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 statements of operations and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position.

(iii) Inventory

Inventory is recorded at the lower of cost and net realizable value. Inventory of harvested hemp are transferred from biological assets at their fair value at harvest, which becomes the initial deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale. The Company reviews inventory for obsolete, redundant and slow-moving goods and any such inventory identified are written down to net realizable value.

(iv) Property

Property is initially recognized at acquisition cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management.

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

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(v) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment are reviewed for indicators of impairment. 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.

(vi) Financial instruments

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

(i) Classification

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.

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(vi) Financial instruments (continued)

(ii) Measurement

Financial assets and liabilities at amortized cost

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.

Financial assets and liabilities at FVTPL

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 statements of operations in the period in which they arise.

Debt investments at FVTOCI

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 Other Comprehensive Income (“OCI”). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

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.

(iii) Impairment of financial assets at amortized cost

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 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 statements of operations, 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.

GAIA GROW CORP.

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Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(vi) Financial instruments (continued)

(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.

(vii) 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. For options granted to employees, the fair value is measured at the grant date using the Black-Scholes Option Pricing Model and recognized over the vesting period. For stock options granted to non-employees, the fair value is measured at the date at which the goods or services are received, using the Black-Scholes Option Pricing Model, if the fair value of the goods or services cannot be estimated.

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.

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 reserve to share capital.

GAIA GROW CORP.
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Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(viii) 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.

(ix) 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 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.

GAIA GROW CORP.
(Formerly Spirit Bear Capital Corp.)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018

(Expressed in Canadian dollars)

3. Significant Accounting Policies (continued)

(ix) Income taxes (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.

(x) New standards

The Company has adopted the following new standard, with a date of initial application of January 1, 2019:

IFRS 16, Leases (“IFRS 16”) IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. This standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard was effective for annual periods beginning on or after January 1, 2019.

The Company has no leases and therefore the adoption of this amendment has not had an impact on the financial statements.

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

4. Receivables

Receivables represent amounts due from a government agency.

5. Biological assets

Biological assets are valued in accordance with IAS 41 and presented at their fair value less costs to sell up to the point of harvest. The Company defines biological assets as hemp plants to the point of harvest and reallocated it to inventory (note 6).

Biological assets are measured at their fair value less costs to sell. This is determined using a model which estimates the expected harvest yield in kilograms for plants currently being cultivated, and then adjusts the amount by the expected selling costs per kilogram (“Kg”).

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5. Biological assets (continued)

The following significant unobservable inputs were used by management as part of the fair value model:

- Estimated selling price per Kg – With no previous sales history, Company’s management evaluated industry data and expects to closely approximate its inventory based on the selling price of product sold subsequent to the year end, which can vary based on the market price of the milled product.
- Stage of growth – The Company applied a weighted average number of days out of the 120 day growing cycle that biological assets have reached as of the measurement date based on completed harvest. The Company assigns fair value on a straight-line basis according to the stage of growth and estimated costs to complete cultivation.
- Plant yield – represented by the expected number of Kg of finished hemp and content of cannabidiol as a percentage of weight to be obtained from each harvested hemp plant based on completed harvest. Expected yield is also subject to a variety of factors including weather conditions.

Other unobservable inputs include: Estimated post-harvest costs, costs to complete and wastage.

During the current year the Company incurred insurance of \$235,148 related to its hemp crop which recorded as insurance expensed to the statement of operations and loss.

All inputs noted above are classified as level three on the fair value hierarchy and are subject to volatility in market prices and several uncontrollable factors, which could significantly affect the fair value of biological assets in future periods.

The Company has quantified the sensitivity of the significant unobservable inputs used to calculate the fair value of biological assets recorded in its financial statements and determined the following:

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
		Impact of a 20% change		Impact of a 20% change
Estimated cost per Kg	\$ 110.23	\$ 22.05	-	-
Estimated stage of growth	100%	100%	-	-
Estimated yield per hectare per Kg - fibre	80.15	16.03	-	-

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5. Biological assets (continued)

The changes in the carrying value of biological assets as of December 31, 2019 are as follows:

	Biological assets
Carrying amount, December 31, 2018	\$ -
Purchase of seeds and biological transformation expenses during the year	1,333,365
Changes in fair value less costs to sell	2,404,615
Reallocated to inventory (Note 6)	(3,737,980)
Carrying amount, December 31, 2019	\$ -

6. Inventory

Inventory is comprised of harvested product packed in bales, ready to be milled. At December 31, 2019, the Company has no biological assets and only holds inventory.

The changes in the carrying value of inventory as of December 31, 2019 are as follows:

Carrying amount, December 31, 2018	\$ -
Reallocated from biological assets (Note 5)	3,737,980
Carrying amount, December 31, 2019	\$ 3,737,980

7. Loan Receivable

As at December 31, 2018, the Company had a loan due from Gaia Bio in the amount of \$10,250. The loan was repaid upon acquisition. See Note 11.

8. Property

Concurrent with the acquisition of Gaia Bio, pursuant to an Offer to Purchase Agreement (the "Offer to Purchase"), the Company assumed Gaia Bio's commitment to purchase a plot of land (the "Property") located in Lamont County, Alberta, for the purpose of building a facility to grow and process biological assets and inventory. The purchase price of the Property was \$190,000.

During the year ended December 31, 2019, the Company paid \$14,400 in extension fees related to the right to purchase, which was expensed. To December 31, 2019, the Company has received a Health Canada's pre-approval letter-to-build ("LTB"), but has not commenced building on the site.

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9. Loan Payable

As at December 31, 2018, the Company had a loan from Spirit Bear in the amount of \$10,500. The loan was non-interest bearing and payable on demand. The loan was repaid upon completion of the RTO. See Note 12.

10. Related Party Transactions

During the year ended December 31, 2019, the Company recorded:

- (a) \$103,947 (2018 - \$nil) was paid to directors of the Company of which \$82,500 (2018 - \$nil) was recorded as director fees and \$21,447 (2018 - \$nil) was recorded as consulting expenses;
- (b) \$34,500 (2018 - \$nil) in administrative fees, which has been recorded in office and administrative expenses, was paid to a company of which officers of the Company are employees; and
- (c) \$278,082 (2018 - \$nil) was recorded as share-based compensation.

As at December 31, 2019 \$14,269 (December 31, 2018 - \$nil) is payable to a director of the Company and included in trade payables.

11. Acquisition

On March 22, 2019, pursuant to a Purchase of Business Agreement, Gaia Holdings acquired all of the issued and outstanding shares of Gaia Bio for the following consideration:

- (a) \$200,000 to the shareholders of Gaia Bio;
- (b) the issuance of 8,400,000 common shares, at a fair value of \$840,000, of the issued and outstanding common shares of Gaia Holdings;
- (c) The shareholders of Gaia Bio may be entitled to an additional payment in the event the 8,400,000 common shares issued by the Company to acquire Gaia Bio are valued at less than \$2,000,000 at any time during the sixty-day period following the date at which Gaia Bio receives a license to produce and sell cannabis by Health Canada under the *Access to Cannabis for Medical Purposes Regulations* (“ACMPR”). 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. At December 31, 2019, the Company has not applied or received a license to sell cannabis from Health Canada under ACMPR.

In accordance with IFRS 3 Business Combinations, a business combination is a transaction in which an acquirer obtains control of a business which is defined as an integrated set of activities and assets that is capable of being conducted and managed to provide a return to investors. For an integrated set of activities and assets to be considered a business, the set needs to contain

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11. Acquisition (continued)

inputs and processes. This acquisition does not meet the definition of a business combination as the primary asset is an intangible asset for license under Health Canada's ACMPR, which was still in the application stage and not operational at the time of acquisition. Consequently, the transaction has been recorded as an acquisition of an asset. The results of operations from Gaia Bio are included in the consolidated financial statements since the date of acquisition.

The details of the consideration paid and the assets and liabilities of Gaia Bio is as follows:

Consideration paid:	\$ 1,040,000
Less: Value of net assets acquired	
Cash	8
Receivables	5,389
Trade payables	(71,532)
Loan payable ¹	(6,270)
Net assets acquired	(72,405)
Excess of consideration over net assets acquired	\$ 1,112,405

¹The Company assumed a business loan which was interest bearing at a rate of 8.93%. The business loan was repaid to the financial institution upon acquisition of Gaia Bio.

The excess of consideration over net assets was initially capitalized as an intangible. At December 31, 2019, the Company is no longer pursuing the license application and recognized an impairment of the intangible of \$1,112,405.

The Company also assumed Gaia Bio's commitment pursuant to the Offer to Purchase (Note 8). The Offer to Purchase was contingent upon Gaia Bio receiving a Health Canada LTB, which it had not received at the date of the acquisition. As such, the Property had a \$Nil carrying value at the date of acquisition.

12. Reverse take-over transaction

On July 23, 2019 ("RTO Date"), the Company completed an RTO transaction with Gaia Holdings (Note 1), whereby the Company acquired 100% of the issued and outstanding common shares of Gaia Holdings.

Pursuant to the RTO, the Company issued an aggregate of 120,000,000 common shares of the Company in exchange for all of the issued and outstanding shares of Gaia Holdings. Upon closing of the transaction, the shareholders of Gaia Holdings owned 80% of the common shares of the Company and, as a result, the transaction is considered a reverse acquisition of the Company by Gaia Holdings. The Company changed its year end from January 31st to December 31st in order to align the fiscal year period to that of Gaia Holdings.

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12. Reverse Take-Over (continued)

For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 Business Combinations since Spirit Bear, prior to the RTO, did not constitute a business. The RTO is accounted for in accordance with IFRS 2 Share-based Payments whereby Gaia Holdings is deemed to have issued shares in exchange for the net assets of Spirit Bear together with its TSX-V listing status at the fair value of the consideration received by Gaia Holdings.

The accounting for the RTO resulted in the following:

(i) The consolidated financial statements of the combined entities are issued under the legal parent, Spirit Bear, but are considered a continuation of the financial statements of the legal subsidiary, Gaia Holdings.

(ii) Since Gaia Holdings is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values. The Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares. The value in excess of the net identifiable assets or obligations of Spirit Bear acquired on closing was expensed in the consolidated statement of operations as a listing transaction expense.

The fair value of the 28,800,012 common shares issued was determined to be \$2,880,012, or \$0.10 per common share.

(iii) The fair value of all the consideration given and the listing expense was as follows:

	Number	Amount
Consideration:		
Shares issued	28,800,012	\$ 2,880,001
Less: Identifiable assets (liabilities) acquired		
Cash		657,506
Receivables		227,650
Prepays		379
Trade payables and accrued liabilities		(177,351)
		708,184
Unidentified asset acquired		
Listing expense		2,171,817
Total net identifiable assets and transaction costs		\$ 2,880,001

(iv) The Company paid a finder's fee of 6,325,000 common shares at the completion of the RTO. Accordingly, the Company recorded the fair value of \$632,500 as a listing expense.

(v) The comparative figures as at December 31, 2018 and for the period from June 22, 2018 (date of incorporation) to December 31, 2018 are those of Gaia Holdings.

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13. Share Capital

(a) Share capital

Authorized: Unlimited number of common shares without par value.

Issued:

During the period from June 22, 2018 (date of incorporation) to December 31, 2018:

Gaia Grow issued 60,000,000 (510,000 pre-forward share split) common shares at \$0.00001 for proceeds of \$51, of which \$50 was recorded in other receivables at December 31, 2018.

Issued during the year ended December 31, 2019:

- (i) On January 18, 2019, Gaia Holdings completed a forward share split on the basis of 1:117.647. All share amounts have been stated on a post-forward share split basis. On January 18, 2019, Gaia Holdings issued 51,600,000 common shares for proceeds of \$439.
- (ii) On July 23, 2019, in accordance with the RTO (Note 12), the Company issued 120,000,000 common shares to acquire all the issued and outstanding shares of Gaia Holdings and adopted the Company's authorized share capital. .

Concurrent with the completion of the RTO, the Company completed a private placement financing of 44,076,969 common shares at a price of \$0.10 per share for proceeds of \$4,407,697. The Company paid finders' fees of \$140,632.

- (iii) The Company issued 1,000,000 common shares at a fair value of \$100,000, for consulting services.
- (iv) Issued 2,300,000 common shares pursuant to the exercise of 2,300,000 stock options for proceeds of \$230,000. Accordingly, the Company reallocated \$166,210 from reserve to share capital for the exercise of stock options.

(b) Stock options

The Company adopted a Stock Option Plan (the "Stock Option Plan") pursuant to which it can grant options to directors, officers and consultants for up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the TSX-V. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

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13. Share Capital (continued)

(b) Stock options (continued)

On August 23, 2019 the Company granted 1,000,000 stock options to consultants of the Company. The stock options have an exercise price of \$0.10 per share and are exercisable for a period of five years. The stock options vested immediately. The fair value of the stock options was determined to be \$72,200 on grant date using the Black-Scholes Option Pricing Model with the following weighted average assumptions: 5 years expected life; share price at the grant date of \$0.08; 151.72% volatility; risk free interest rate of 1.21; and a dividend yield of 0%.

On August 28, 2019 the Company granted 3,850,000 stock options to directors and officers of the Company. The stock options have an exercise price of \$0.10 per share and are exercisable for a period of five years. The stock options vested immediately. The fair value of the stock options was determined to be \$277,970 on grant date using the Black-Scholes Option Pricing Model with the following weighted average assumptions: 5 years expected life; share price at the grant date of \$0.08; 151.86% volatility; risk free interest rate of 1.17; and a dividend yield of 0%.

On August 29, 2019 the Company granted 300,000 stock options to a consultant of the Company. The stock options have an exercise price of \$0.10 per share and are exercisable for a period of five years. The stock options vested immediately. The fair value of the stock options was determined to be \$21,670 on grant date using the Black-Scholes Option Pricing Model with the following weighted average assumptions: 5 years expected life; share price at the grant date of \$0.08; 151.94% volatility; risk free interest rate of 1.18; and a dividend yield of 0%.

On August 30, 2019 the Company granted 500,000 stock options to a consultant of the Company. The stock options have an exercise price of \$0.10 per share and are exercisable for a period of five years. The stock options vested immediately. The fair value of the stock options was determined to be \$36,150 on grant date using the Black-Scholes Option Pricing Model with the following weighted average assumptions: 5 years expected life; share price at the grant date of \$0.08; 152.01% volatility; risk free interest rate of 1.18; and a dividend yield of 0%.

On September 10, 2019 the Company granted 500,000 stock options to a consultant of the Company. The stock options have an exercise price of \$0.10 per share and are exercisable for a period of five years. The stock options vested immediately. The fair value of the stock options was determined to be \$36,200 on grant date using the Black-Scholes Option Pricing Model with the following weighted average assumptions: 5 years expected life; share price at the grant date of \$0.08; 152.31% volatility; risk free interest rate of 1.44; and a dividend yield of 0%.

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13. Share Capital (continued)

(b) Stock options (continued)

The movement in the Company's stock options for the year ended December 31, 2019 are as follows:

	Number of options	Exercise price
Outstanding, December 31, 2018	-	\$ -
Granted	6,150,000	0.10
Exercised	(2,300,000)	0.10
Outstanding and exercisable, December 31, 2019	3,850,000	\$ 0.10

As at December 31, 2019, the Company has the following stock options outstanding:

Number of options outstanding and exercisable	Exercise price	Expiry date	Weighted average life
3,850,000	\$0.10	August 28, 2024	4.66 years

(c) Warrants

As at December 31, 2019 the Company does not have any warrants outstanding.

(d) Escrow Shares

122,730,000 shares issued to the principals of the Company under the RTO are subject to escrow conditions required by applicable securities laws and the TSX-V requirements. Pursuant to the terms of the escrow agreements, 7,195,324 of the escrowed shares were released from escrow on July 23, 2019. The remaining 115,534,676 shares held within escrow will be released over a period of 32 months.

(e) Reserve

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

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14. Financial Instruments and Risk Management

Financial Instruments

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).

The following table shows the classification of the Company's financial instruments:

<u>Financial asset/ liability</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Trade payables	Amortized cost

The fair value of cash and cash equivalents and trade payables approximate fair value due to the short-term nature of the financial instruments.

Risk Management

(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 held in bank accounts, which is mainly held with reputable Canadian banks. Therefore, credit risk on the Company's cash deposits is assessed as relatively low.

The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist primarily of refundable Canadian government sales taxes.

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14. Financial Instruments and Risk Management (continued)

Risk Management (continued)

(b) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account earns interest income at variable rates and is subject to the movement in interest rates. Management considers the interest rate risk to be minimal.

Foreign Exchange Rate

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

Price Risk

The Company is not exposed to any significant price risk.

(c) 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.

15. 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 period ended December 31, 2018 to the year ended December 31, 2019.

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16. INCOME TAXES

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

	December 31, 2019	December 31, 2018
Loss for the year	\$ (3,492,262)	\$ (220)
Statutory income tax rate	25.71%	27%
Expected income tax recovery at statutory income tax rate	(898,000)	(59)
Permanent differences	916,000	-
Impact of change in tax rates	(624,000)	-
Share issuance cost	(3,000)	-
Change in unrecognized deferred income tax assets	609,000	59
Income tax recovery	\$ -	\$ -

Temporary differences that give rise to the following deferred tax assets and liabilities are:

	December 31, 2019	December 31, 2018
Share issuance costs	\$ 1,000	\$ -
Non-capital losses	566,000	59
Plant and equipment	42,000	-
	609,000	59
Unrecognized deferred income tax assets	(609,000)	(59)
Net deferred tax asset	\$ -	\$ -

As at December 31, 2019, the Company has approximately \$2,101,000 (2018 - \$220) of non-capital losses in Canada that may be used to offset future taxable income, expiring between 2032 and 2039.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

17. SUBSEQUENT EVENTS

Subsequent to December 31, 2019:

- a) The common shares of the Company commenced trading on the CSE on April 16, 2020. In connection with completion of the listing, the common shares of the Company were delisted from the TSX-V effective at the closing of markets on April 15, 2020.

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17. SUBSEQUENT EVENTS (continued)

- b) The Company entered into a Share Exchange Agreement with Blackhawk Resource Corp. (“Blackhawk”), a privately held arm’s length company continued under the laws of the *Business Corporations Act* (Alberta). Blackhawk is the owner of all the issued and outstanding shares of certain companies (the “target entities”). Pursuant to the Share Exchange Agreement, the Company acquired all of the issued and outstanding shares of the target entities for a purchase price of \$1,500,000, which was satisfied through the issuance of 30,000,000 common shares of the Company (subsequently issued) at a price of \$0.05 per share.
- c) The Company entered into an Offtake Agreement (the “Offtake Agreement”) with Enagon Inc. (“Enagon”), a privately held arm’s length company continued under the laws of the *Business Corporations Act* (Alberta). Pursuant to the Offtake Agreement, the Company will acquire all of the milled hemp at Enagon’s milling facility.

The Company will be responsible for sale of the Offtake Hemp to third parties. The Company will retain:

- (i) 70% of the revenue if the hemp is cultivated pursuant to the Company’s license;
- (ii) 30% of the revenue if the hemp is cultivated pursuant to Enagon’s license; and
- (iii) 50% of the revenue if the hemp is cultivated by a third party.

Enagon’s obligation to sell Offtake Hemp is subject to the Company maintaining a license to cultivate and sell industrial hemp.

The Company concurrently entered into an exclusive Milling Agreement with Enagon, whereby Enagon will provide hemp separation and milling services to the Company. The Milling Agreement prohibits Enagon from providing hemp or cannabis milling services of any nature or kind to any client other than the Company without the Company’s consent. As a fee for milling, Enagon will be entitled to receive 30% of the revenue generated from the sale of milled product. Upon the first delivery of milled product, Enagon will be granted 100,000 stock options of the Company. The stock options will vest immediately, exercisable at \$0.10 and expire 2 years from the grant date.

The Offtake Agreement and Milling Agreement are for an initial term of 2 years and renewable for a further 12 months. In the case that the Company enters into a lease agreement for a facility that is used or can be used by Enagon to mill industrial hemp, the end date of the term for each agreement shall be extended to match the end of the lease term.

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17. SUBSEQUENT EVENTS (continued)

- d) The Company entered into a Sale of Material Agreement whereby the Company will sell milled hemp material (the “material”) with a CBD content of not less than 5% for purposes to be produced into crude oil and distillate (the “finished product”). The Company will deliver approximately 1,000Kg a week until an aggregate of 15,000Kg have been delivered, such that each tranche of 1,000Kg must produce 50Kg of CBD distillate. The purchase of the finished product are to be located by the Company, who shall broker a sale transaction for the finished product at prevailing market prices or pay a 5% credit on the purchase price of the material.