GAIA GROW CORP.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2020 and 2019
Expressed in Canadian Dollars
(Unaudited)

GAIA GROW CORP.
Index to Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2020 and 2019

FINANCIAL STATEMENTS

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

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

	September 30, 2020	December 31, 2019 (audited)
Assets		
Current assets		
Cash and cash equivalents	$ 1,164,134	$ 1,924,135
Receivables (note 3)	45,135	79,451
Prepaid	24,170	83,654
Inventory (note 5)	3,737,980	3,737,980
Total current assets	4,971,420	5,825,220
Property and equipment (note 6)	560,578	190,000
Total assets	$ 5,531,998	$ 6,015,220
Liabilities and shareholders' equity (deficit)		
Current liabilities		
Payables (note 8)	$ 86,802	$ 81,966
Accrued liabilities	37,500	31,500
Lease liability – current (note 7)	72,013	-
Total current liabilities	196,315	113,466
Lease liability – long-term (note 7)	226,169	-
Total liabilities	422,484	113,466
Shareholders' equity (deficit)		
Share capital (note 11)	10,166,256	9,116,256
Reserve (note 11)	277,980	277,980
Deficit	(5,334,722)	(3,492,482)
Total shareholders' equity (deficit)	5,109,514	5,901,754
Total liabilities and shareholders' equity (deficit)	$ 5,531,998	$ 6,015,220

Nature of business and continuance of operations (note 1)
Commitments (note 15)

Approved and authorized for issuance on behalf of the Board of Directors on November 12, 2020 by:

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

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

GAIA GROW CORP.
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue	$ -	$ -	$ 3,737	$ -
Expenses				
Advertising and promotion	1,796	152,472	141,173	$ 153,316
Consulting (note 8)	10,000	484,302	10,987	484,302
Foreign exchange loss	-	275	-	275
Depreciation (note 6)	32,977	-	32,977	-
Directors' fees (note 8)	51,000	15,000	148,500	15,000
Insurance	20,687	3,179	37,704	3,179
Interest (note 7)	8,344	107	9,158	107
Land payments	2,221	(6,900)	96,775	13,700
Licenses and permits	-	-	9,072	-
Office and administration (note 8)	24,024	(21,865)	59,220	(21,545)
Professional fees	38,225	(93,774)	184,282	42,176
Rent (note 15)	(179)	-	12,591	-
Repair and maintenance	-	-	14,297	-
Share-based compensation	-	444,180	-	444,180
Shipping	-	-	2,008	-
Testing	1,010	-	2,935	-
Transfer agent	4,308	4,790	30,720	4,790
Travel	4,970	1,156	4,970	1,156
Total expenses	199,383	982,922	797,369	1,140,636
Loss on acquisition of subsidiaries (note 9)	-	(22,205)	1,049,251	283,375
Interest income	(523)	(22,946)	(643)	(22,946)
Listing transaction expense (note 10)	-	2,385,503	-	2,385,503
Income tax paid	-	1,945	-	1,945
Net loss and comprehensive loss for the period	$ (198,860)	$(3,327,219)	$(1,842,240)	$(3,788,513)
Net loss per share, basic and diluted	$ (0.00)	$ (0.05)	$ (0.01)	$ (0.09)
Weighted average shares outstanding, basic and diluted	232,501,981	68,461,945	220,239,207	42,069,261

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

GAIA GROW CORP.
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in Canadian dollars)

	Share capital				
	Number of shares	Amount	Reserve	Deficit	Total shareholders' equity (deficit)
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, September 30, 2019	111,600,000	490	-	(461,514)	(461,024)

Balance, December 31, 2019	202,501,981	$ 9,116,256	$ 277,980	$ (3,492,482)	$ 5,901,754
Shares issued for acquisition of subsidiaries (note 9)	30,000,000	1,050,000	-	-	1,050,000
Net loss for the period	-	-		(1,842,240)	(1,842,240)
Balance, September 30, 2020	232,501,981	$ 10,166,256	$ 277,980	$ (5,334,722)	$ 5,109,514

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

GAIA GROW CORP.
Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Nine months ended September 30,	
	2020	2019
Operating activities		
Net loss for the period	$ (1,842,240)	$ (3,788,513)
Acquisition of subsidiaries	1,050,000	285,125
Depreciation	32,977	-
Interest expense for right-of-use asset	9,158	-
Listing expense	-	2,385,502
Share-based compensation	-	444,180
Adjustments:		
Receivables	34,315	(26,609)
Prepaids	59,484	(7,753)
Net change in biological assets	-	(1,310,581)
Payables and accrued liabilities	10,836	(55,743)
Net cash used in operating activities	(645,470)	(2,076,392)
Investing activities		
Acquisition of Gaia Bio	-	(200,000)
Acquisition of land	-	(201,300)
Cash acquired in RTO	-	562,465
Lease payments made	(34,194)	-
Purchase of property and equipment	(80,337)	-
Net cash used in investing activities	(114,531)	161,165
Financing activities		
Proceeds from exercise of stock options	-	230,000
Shares issued for cash, net of cash share issuance costs	-	4,367,064
Loan repaid	-	(2,861)
Net cash provided by financing activities	-	4,594,203
Increase (decrease) in cash and cash equivalents	(760,001)	2,678,976
Cash and cash equivalents, beginning	$ 1,924,135	31
Cash and cash equivalents, ending	$ 1,164,134	$ 2,679,007
Cash and cash equivalents are comprised of:		
Cash	$ 1,033,786	$ 2,679,007
Cash equivalents	130,348	-
Cash, end of the period	$ 1,164,134	$ 2,679,007

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

1. Nature of Business and Continuance of Operations

Gaia Grow Corp. (formerly Spirit Bear Capital Corp.) (the "Company" or "Spirit Bear") 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 Capital Corp. 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 10). 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). 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.

Upon acquisition of all issued and outstanding shares of 1202465 B.C. Ltd. ("Nelson Store") and Patriot Cannabis Brands Inc. ("Powell River Stores") in April 2020 (see note 9), the Company is also involved in cannabis retail sales.

These condensed interim consolidated financial statements are 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 form a material uncertainty which raises significant doubt about 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. Realization values may be substantially different from carrying values as shown.

The Company's operations have not been significantly adversely affected by the COVID-19 pandemic. However, the Company cannot accurately predict the impact COVID-19 will have on its future operations and the ability of others to meet their obligations with the Company, including uncertainties relating to the duration of the outbreak, and the length of travel and quarantine restrictions imposed by governments of affected countries.

2. Basis of Preparation

(i) Statement of Compliance and Basis of Preparation

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 issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim consolidated financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* ("IAS 34"), using accounting policies which are consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). They do not include all of the information required for full annual consolidated financial statements in compliance with IAS I *Presentation of Financial Statements* ("IAS 1").

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2019. The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2019. The Company's interim results are not necessarily indicative of its results for a full year.

(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 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 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 wholly owned Canadian subsidiaries, Gaia Holdings Corp., Gaia Bio Pharmaceuticals Inc., 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc.

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 Corp. The consolidated accounts also include the accounts of 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. from April 21, 2020, the date of acquisition of these subsidiaries by the Company.

Inter-company transactions and balances are eliminated upon consolidation.

(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.

Significant judgments are as follows:

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

Business acquisitions
Judgment is used in determining whether an acquisition is a business combination or an asset acquisition.

Significant areas requiring the use of estimates relate to the following:

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 for the plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

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.

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.

3. Receivables

Receivables represent amounts due from a government agency.

4. 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. All biological assets were reallocated to inventory at December 31, 2019 (note 5).

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").

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.

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 changes in the carrying value of biological assets as of December 31, 2019 and September 30, 2020 are as follows:

(Expressed in Canadian dollars)

		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 5)		(3,737,980)
Carrying amount, December 31, 2019 and September 30, 2020	$	-

One of the significant unobservable inputs used to calculate the fair value of biological asset is harvest yield per acre. At September 30, 2020 and December 31, 2019, the Company did not hold biological assets as all hemp crop was harvested therefore was not susceptible to yield risk.

5. Inventory

Inventory is comprised of harvested product packed in bales, ready to be milled. At September 30, 2020 and 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 and September 30, 2020 are as follows:

Carrying amount, December 31, 2018	$	-
Reallocated from biological assets (note 4)		3,737,980
Carrying amount, December 31, 2019	$	3,737,980
Carrying amount, September 30, 2020	$	3,737,980

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

Selling price – a decrease in the average selling price of dried milled hemp per kilogram of 10% would result in a decrease in inventory of $373,798 (December 31, 2019: $373,980).

(Expressed in Canadian dollars)

6. Property and equipment

	Property	Equipment	Leasehold improvements	Right-of-use assets	Total
	$	$	$	$	$
Cost					
Balance, December 31, 2018	-	-	-	-	-
Additions	190,000	-	-	-	-
Balance, December 31, 2019	190,000	-	-	-	190,000
Additions	-	24,587	55,750	323,218	403,555
Balance, September 30, 2020	**190,000**	**24,587**	**55,750**	**323,218**	**593,555**
Accumulated depreciation					
Balance, December 31, 2018	-	-	-	-	-
Depreciation	-	-	-	-	-
Balance, December 31, 2019	-	-	-	-	-
Depreciation	-	-	1,549	31,428	32,977
Balance, September 30, 2020	**-**	**-**	**1,549**	**31,428**	**32,977**
Net book value					
As at September 30, 2020	**190,000**	**24,587**	**54,201**	291,790	**560,578**
As at December 31, 2019	190,000	-	-	-	190,000

Concurrent with the acquisition of Gaia Bio (note 9), 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. The purchase price of the Property was $190,000.

During the nine months ended September 30, 2020, the Company incurred $24,587 in additions to the Company's hemp processing equipment located at the Company's facility in Lacombe, Alberta. At September 30, 2020, this equipment has not been put in use yet and therefore no amortization has been charged on it yet.

The right-of-use assets relate to the Company's cannabis retail store locations in Nelson and Powell River, British Columbia (see note 7).

Leasehold improvements relate to improvements made to the cannabis retail store in Nelson, British Columbia. During the nine months ended September 30, 2020, $55,750 (2019 - $nil) in leasehold improvements was purchased from a company with a director in common (see note 8).

(Expressed in Canadian dollars)

7. Lease liability

On June 9, 2020, the Company's subsidiary, 1202465 B. C. Ltd., entered into a lease agreement for a cannabis retail store in Nelson, British Columbia, for a term ending on September 1, 2023. On April 21, 2020, the Company's subsidiary, Patriot Cannabis Brands Inc., entered into two lease agreements for the cannabis retail stores in Powell River, British Columbia, for a term ending on August 1, 2024 and October 21, 2024.

The leases are accounted for in accordance with IFRS 16 *Lease*s. Interest was calculated based an estimated annual rate of 7%.

As at September 30, 2020, the lease liability is as follows:

Balance as at January 1, 2020	**$**	**-**
New leases signed		323,218
Interest expense		9,158
Lease payments		(34,194)
Balance as at September 30, 2020	**$**	**298,182**
Current portion of the lease liability		(72,013)
Non-current portion of a lease liability	$	226,169

8. Related party transactions

During the nine months ended September 30, 2020 and 2019, the Company recorded:

(a) $148,500 (2019 - $nil) in directors fees paid or payable to directors of the Company;
(b) $45,000 (2019 - $nil) in administrative fees recorded in office and administrative expenses, and paid to a company of which officers of the Company are employees;
(c) $10,987 (2019 - $nil) in consulting fees paid to a company with a director in common;
(d) $55,750 (2019 - $nil) in leasehold improvements paid to a company with a director in common.

As at September 30, 2020, $21,000 (December 31, 2019 - $14,269) was payable to a director of the Company and included in payables.

9. Acquisitions

Gaia Bio
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;

(Expressed in Canadian dollars)

(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 September 30, 2020, 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 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 of Gaia Bio were 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 are as follows:

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

[1] The 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 pursing 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 6). 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.

<u>Retails stores</u>

On April 21, 2020, the Company entered into a share exchange agreement with Blackhawk Growth Corp. ("Blackhawk"), a public company with directors in common. Blackhawk is the owner of all of the issued and outstanding shares of 1202465 B.C. Ltd. ("Nelson Store") and Patriot Cannabis Brands Inc. ("Powell River Stores"), two private companies incorporated in British Columbia (the "target entities"). Pursuant to this agreement, the Company acquired all of the issued and outstanding shares of the target entities for the issuance of 30,000,000 common shares of the Company.

The target entities are not considered to be operating businesses as at April 21, 2020 and do not have an integrated set of activities and assets that are capable of being conducted and managed to generate an economic return, therefore neither of these entities meets the criteria of a business under IFRS 3 *Business Combinations*. At April 21, 2020, the target entities had no assets or liabilities. The Nelson Store, located in Nelson, British Columbia, had an approval in principle issued by the Liquor & Cannabis Regulation Branch of British Columbia to operate a cannabis retail store, while the Powell River Stores both had applications in process to operate licensed cannabis dispensaries at the premises located in Powell River, British Columbia. The shares were issued on April 21, 2020, and the share-based payment was recorded at an estimated fair value of $0.035 per share and expensed in the statement of loss of operations and comprehensive loss. The transaction was recorded as an expense because the Company could not substantiate the value of licenses in process at the date of acquisition and thus support recognition of intangible assets in relation to those licenses.

10. 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.

For accounting purposes, this 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.

(Expressed in Canadian dollars)

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
Prepaids			379
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 September 22, 2018 (date of incorporation) to December 31, 2018 are those of Gaia Holdings.

11. Share Capital

(a) Share capital

Authorized: Unlimited number of common shares without par value.

Issued:

Issued during the nine months ended September 30, 2020:

On April 21, 2020 the Company issued 30,000,000 shares for acquisition of two subsidiaries (note 9).

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 (see note 10), 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.

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%.

(Expressed in Canadian dollars)

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%.

No stock options were granted during the nine months ended September 30, 2020.

The movement in the Company's stock options for the year ended December 31, 2019 and nine months ended September 30, 2020 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 and September 30, 2020	3,850,000	$ 0.10

As at September 30, 2020, 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	3.91 years

(Expressed in Canadian dollars)

(c) Warrants

As at September 30, 2020 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 and 8,254,147 on January 23, 2020. The remaining 107,280,529 shares held within escrow will be released during the period ending July 23, 2022.

(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.

12. 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:

Financial asset/ liability	Classification
Cash and cash equivalents	Amortized cost
Payables	Amortized cost

The fair value of cash and cash equivalents and 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.

(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 not exposed to any significant interest rate risk.

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

Price Risk
The Company is exposed to a price risk related to changes in market prices on hemp and its products.

(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.

13. 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

(Expressed in Canadian dollars)

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 ended December 31, 2019 to the period ended September 30, 2020.

14. Segmented reporting

A business segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with the Company's other components. All operating segments' operating results are reviewed regularly by the Company's management to make decisions about the allocation of resources and to assess their performance, and for which discrete financial information is available. As at September 30, 2020, the Company had three reportable operating segments: manufacturing and marketing of hemp-based products, retail cannabis sales, and the head office.

	Manufacturing and marketing of hemp-based products	**Retail cannabis sales**	**Head office**	**Total**
	$	**$**	**$**	**$**
As at September 30, 2020:				
Total assets	3,965,109	366,808	1,200,081	5,531,998
Total liabilities	-	298,182	124,302	422,484
As at December 31, 2019:				
Total assets	3,737,980	-	2,277,240	6,015,220
Total liabilities	-	-	113,466	113,466
Nine months ended September 30, 2020:				
Revenue	(3,737)	-	-	(3,737)
Depreciation	-	32,977	-	32,977
Interest	-	9,158	-	9,158
Loss on acquisition of subsidiaries	-	-	1,049,251	1,049,251
Net loss for the period	144,033	48,419	1,649,788	1,842,240

(Expressed in Canadian dollars)

Nine months ended September 30, 2019:				
Loss on acquisition of subsidiaries	-	-	303,580	303,580
Net loss for the period	20,600	-	440,694	461,294

15. Commitments

On June 15, 2020, the Company entered into a lease agreement for a facility in Lacombe, Alberta. The lease agreement is for one year. At September 30, 2020, the Company is committed to future lease payments of $35,303.