**Management's Discussion and Analysis**

**Gaia Grow Corp.**

**For the years ended December 31, 2020 and 2019**

*The following management discussion and analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and accompanying notes ("Financial Statements") of Gaia Grow Corp. (the "Company") for the year ended December 31, 2020. Results have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All monetary amounts are reported in Canadian dollars unless otherwise indicated.*

*This MD&A contains forward-looking information. See "Forward-Looking Information" and "Risks and Uncertainties" for a discussion of the risks, uncertainties and assumptions relating to such information.*

## Introduction

The following discussion of performance and financial condition should be read in conjunction with the audited year end consolidated financial statements of Gaia Grow Corp. (the "Company" or "Gaia Grow") for the year ended December 31, 2020. The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The Company's reporting currency is Canadian dollars unless otherwise stated. This Management's Discussion and Analysis ("MD&A") is dated April 27, 2021.

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 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.

## Major transactions

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).

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.

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.

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.

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), 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 inputs and processes. This acquisition did not meet the definition of a business combination as the primary asset was 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 was recorded as an acquisition of an asset.

At December 31, 2019 and 2020, the Company is no longer pursing the license application.

On April 16, 2020, the common shares of the Company commenced trading on the Canadian Securities Exchange. In connection with completion of the listing, the common shares were delisted from the TSX Venture Exchange effective at the closing of markets on April 15, 2020.

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. 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 did not meet the definition of a business combination as the primary asset acquired was leases. The target entities had minimal assets, liabilities nor an integrated set of activities and assets that were capable of being conducted and managed to generate an economic return. Consequently, the transaction was recorded as an acquisition of an asset. The results of operations from the target entities were included in the consolidated financial statements since the date of acquisition.

The details of the consideration paid and the assets and liabilities of the target entities were as follows:

| | |
|---|---|
| **Consideration paid:** | $ 1,050,000 |
| **Less: Value of net assets acquired** | |
| Prepaids | 10,056 |
| Right-of-use assets | 245,168 |
| Lease liabilities | (245,168) |
| **Net assets acquired** | 10,056 |
| **Excess of consideration over net assets acquired** | $ 1,039,944 |

By virtue of acquiring shares of the target entities, the Company acquired leases to locations for the intent of potential future operation of cannabis retail stores in Nelson and Powell River, British Columbia. Upon acquisition of the target entities, the Company evaluated the impact of a remeasurement as new leases and the recording of an intangible asset or liability for any favourable or unfavourable terms of the leases. The cost of the acquisition, as a result, was allocated to the right-of-use asset and the excess of consideration was initially capitalized as a lease intangible. The Company could not substantiate recognition of a lease intangible or other type of asset at the date of acquisition and, as such, the Company recognized an impairment of the intangible of $1,039,944.

As a result of this acquisition, the Company is now also involved in cannabis retail sales.

As at December 31, 2020, the Company had working capital of $546,852 (December 31, 2019 – $5,711,754) and accumulated shareholders deficit of $9,697,120 (December 31, 2019 – $3,492,482). During the year ended December 31, 2020, the Company incurred a net loss of $6,204,638. The continuing operations of the Company are dependent upon its ability to continue to achieve profitable operations in the future, and raise additional funds as and when required. These factors indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

## Business Development

In the beginning of the summer of 2019 the Company purchased a plot of land located in Lamont County, Alberta for the purpose of growing hemp at a price of $190,000. Around the same time Gaia entered into a consulting agreement with Core Ag Inputs for a seven-month term in which Core AG Inputs provided a series of services involving agronomy, land preparation for farming hemp, crop optimization and oversight for the 2019 planting and harvest year. The team at Core AG Inputs also offers agronomy services to additional farmland that Gaia may bring under contract in future years.

Meanwhile the Company updated its investors on the planting progress. Seeds arrived in the second week of June and it was a very rainy spring – great conditions for seed germination. The process of fertilizing, seeding and rolling the expansive 1,494 acres in southern Alberta was spread over two weeks. Thanks to intermittent rains the crop has started off well. Post-production of a drone fly-over video of the seeding process was underway and was uploaded on Gaia's social media channels (Twitter, YouTube and Instagram – links available on www.GaiaGrow.com).

In September 2019 the Company announced that it had successfully grown 1,494 acres of hemp from seed and was finishing harvest and logistical plans for the end of the year. The contracted harvest team was an experienced group that works across North America with a variety of equipment and crops, and more specifically, had recent experience in working with various hemp crops across the continent.

In October 2019 the Company announced the completion of its inaugural 2019 hemp harvest from its Rockyview County, Alberta Fields. Multiple stages of harvest were completed, ensuring a whole-plant harvest and efficient separation of the various parts of the hemp plants for effective and efficient use by their intended offtake partners in different sales channels. Gaia's custom harvesting and hauling teams successfully deployed harvesting machinery, baling equipment, loaders and transport trucks to arrange and prepare the harvested product for sale to its end users. The multi-stage harvest included effectively passing over the approximately 1,500 acres of land several times to separate the harvest components. The inaugural hemp crop yielded almost 4,200 bales of hemp tips and 500 bales of fiber stalks. 1,950 of the bales of the tips were trucked to a secondary location for further processing.

The test results received from multiple labs came back with the most positive results:

- Cannabinoid Potency: Within the upper percentiles of the limits of X59 genetics
- Microbiology: Pass
- Pesticides (full Health Canada required spectrum): Pass
- Heavy Metals: Pass.

In January 2020 Gaia Grow announced that the potential CBD percentage from its biomass increased to just under 6% through a drying process known as milling. The Company was working to achieve this result using an exclusive third-party technology. With this technology, Gaia Grow can process between half and a full ton of biomass per hour and increase CBD quality in biomass by over 300%.

In April 2020 Gaia Grow signed a Milling Agreement with Enagon Inc. Enagon is a privately held Alberta corporation which owns the milling technology. "Milling" is not a new process—it is a mechanical method of separating "straw", "hurd", "shiv" and CBD rich flower from hemp bales. Enagon's proprietary milling technology is high-capacity and consistently operates between 0.5 -1 tonne per hour and achieves a finished product with up to a 300% CBD increase. This method quickly and efficiently separates each revenue generating portion of the hemp bale and in doing so, maximizes the profitability of the entire crop. Pursuant to the terms of the LOI, the parties intended for Enagon to mill industrial hemp to be sold exclusively by Gaia to fibre suppliers and licenced processors of cannabis in Canada pursuant to Gaia's industrial hemp licence. For industrial hemp supplied to Enagon by Gaia, the revenue for the sale of the milled product was to be split 30% to Enagon and 70% to Gaia. For industrial hemp supplied by Enagon pursuant to Gaia's licence, the revenue for the milled product was to be split 70% to Enagon and 30% to Gaia. Gaia was responsible for all sales of milled hemp and the distribution of revenue from such sales. Any revenue generated by the sale of milled product produced from industrial hemp supplied by third parties was to be split 50% to Enagon and 50% to Gaia. Each party was responsible for its own expenses from its own resources and cash flow and the industrial hemp was to be milled at Enagon's milling facility located in Lacombe County, Alberta. In April 2021, the agreement with Enagon was terminated and the parties are currently reassessing the structure and the future plans for the hemp operations.

In March 2020 Gaia Grow reported that it signed an agreement with CannGroup Development Corp. ("CDC") for the sale of 15,000 kilograms of milled hemp powder to CannGroup for processing into CBD oil and distillate. On May 27, 2020 Gaia Grow Corp. announced the expansion of the companies have come to an agreement to expand their business relationship to allow for the addition of an exclusive-use extraction line in CDC's new subsidiary Site 2 license in Calgary. No sales have been completed to date as Gaia is still working on reconfiguring the processing facilities and improving the quality of extraction process.

In June 2020 Gaia Grow Corp. successfully sourced and leased an industrial facility to expand its existing joint venture with Enagon Inc. for post-harvest bale breaking and milling in order to increase its production capacity of saleable milled hemp flower product. The lease of the industrially-zoned 4,500 square foot facility in Lacombe, Alberta started on June 18, 2020 and is for one year with rolls and extensions possible, providing flexibility to expand operations to another location if required after this first year. After reviewing many options of purchasing, building or leasing facilities over the past year, Gaia's management selected this new facility that had just recently come on the market as it offered the best mix of cost, location, size, upgraded power and utility access. The site was formerly the home of a pallet manufacturer that operated in the building for the past 24 years. It allows for large transportation vehicle access, has enough power for the foreseeable needs of the milling operation expansion, and also offers a large 1-acre lot which will allow for both unprocessed bale storage as well as rebaling of the fibre once separated from the flower and non-viable seed.

Upon taking possession, Gaia and Enagon have begun outfitting the facility with equipment and completing some minor renovations in order to achieve the proper floorplan and dust-management systems required to optimize bale breaking, milling operations, rebaling of separated hemp fibre, material handling and storage of finished product. All required permits have been received.

Due to a decline in hemp prices in the latter part of 2020, the Company determined that the value of its inventory of hemp biomass and CBD powder is impaired and recorded an impairment write-down of $3,206,335 in 2020 (2019 - $Nil). Due to minimal sales during the year ended December 31, 2020, the Company also recorded a provision for slow-moving inventory of $825,889 in 2020 (2019 - $Nil) and an impairment write-down on equipment at Lacombe of $80,505 (2019 - $Nil).

In 2020 and to today's date Gaia has been in negotiations with several groups seeking to purchase Gaia's product.

*Cannabis retail sales*

In February 2020, 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).

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").
A license to operate a cannabis retail store for the Nelson Store, located at 306B Victoria Street in Nelson, British Columbia, has been previously issued by the Liquor & Cannabis Regulation Branch of British Columbia to CFPM, a company with a director and officer in common. This license is currently in the process of being transferred to 1202465 B.C. Ltd., which is now a subsidiary of Gaia Grow Corp. Subsequent to the share exchange agreement, the Company has applied for the Powell River Stores to operate licensed cannabis dispensaries at the premises located at Unit No. 3, 4296 Joyce Avenue and 6239 Walnut Street in Powell River, British Columbia.

In satisfaction of the purchase price, Gaia has issued 30,000,000 common shares to Blackhawk, at a $0.035 per common share. Prior to completion of the transaction, Blackhawk did not hold any securities of Gaia. Blackhawk now has ownership and control of a total of 30,000,000 common shares of Gaia representing approximately 12.9% of the issued and outstanding shares.

In October 2020, the Company announced opening of its Green Room's store. The store was opened through CFPM while Gaia is waiting for the license to be transferred over to Gaia. On October 1, 2020, the Company entered into an Agreement (the "Agreement") with CFPM Management Services Ltd. a company with a director in common. Pursuant to the Agreement, the

Company is entitled to a fee for promotional services in the amount equal to net profits earned from business conducted at the Company's leased retail premise. To December 31, 2020, the Company has not earned nor recorded any such fees. General advances made to CFPM are non-refundable and, as such, the Company has recorded total advances of $124,911 in the statement of operations and comprehensive loss. Advances designated for the use of inventory purchases by CFPM are to be settled upon the transfer of a cannabis retail license from CFPM to the Company. The total of such advances to December 31, 2020 were $23,591. To December 31, 2020 and to date, the application for transfer is in progress, however has not been completed.

## SELECTED ANNUAL AND QUARTERLY FINANCIAL INFORMATION

### Selected Annual Information

The following selected financial information is derived from the audited consolidated financial statements of the Company. The figures have been prepared in accordance with IFRS.

| | Year ended December 31, 2020 | Year ended December 31, 2019 | Period from incorporation, June 22, 2018, to December 31 2018 |
|---|---|---|---|
| Total revenues | $ - | $ - | $ |
| General and administrative expenses | $ 886,139 | $ 2,036,020 | $ |
| Net loss and comprehensive loss | $ 6,204,638 | $ 3,492,262 | $ |
| Total assets | $ 1,261,170 | $ 6,015,220 | $ |
| Total liabilities | $ 514,054 | $ 113,466 | $ |
| Basic and diluted – comprehensive (loss) per share | $ (0.03) | $ (0.03) | $ |
| Cash dividends declared per share | Nil | Nil | |

**Note: The Company was incorporated on June 22, 2018.**

General and administrative expenses decreased by $1,149,881 from $2,036,020 in 2019 to $886,139 in 2020 as there were no share-based payments in 2020 as compared to $444,190 in share-based compensation in 2019, and there was no insurance payments related to biological assets in 2020 as compared to $235,148 in 2019. In addition, consulting fees decreased from $729,448 in 2019 to $50,987 in 2020. Consulting fees in 2019 related to sourcing of new business opportunities and completion of the RTO transaction and acquisition of Gaia Bio, whereas in 2020 the Company did not incur any such fees.

Total assets decreased from $6,015,220 in 2019 to $1,261,170 mainly due to an impairment write-down of inventory recorded in 2020 of $4,032,224. During the year ended December 30, 2020, the Company recorded an impairment write-down of $4,032,224 (2019 - $Nil), which includes

$3,206,335 in an impairment write-down of finished goods and raw materials due to a decline in market prices and therefore a decline in the estimated recoverable amount of inventory, as well as $825,889 in a provision for slow-moving inventory due to minimal sales in 2020.

**Selected quarterly information**

| | Three-month period ended | | | |
|---|---|---|---|---|
| | Dec 31, 2020 | Sep 30, 2020 | Jun 30, 2020 | Mar 31, 2020 |
| Net revenue | $ - | $ - | $ - | $ - |
| Net comprehensive loss | (4,362,397) | (198,860) | (1,377,950) | (265,431) |
| Basic and diluted – comprehensive loss per share | $ (0.02) | $ (0.00) | $ (0.01) | $ (0.00) |

| | Three-month period ended | | | |
|---|---|---|---|---|
| | Dec 31, 2019 | Sep 30, 2019 | Jun 30, 2019 | Mar 31, 2019 |
| Net revenue | $ - | $ - | $ - | $ - |
| Net comprehensive gain (loss) | 296,251 | (3,327,219) | (456,824) | (4,470) |
| Basic and diluted – comprehensive (loss) per share | $ 0.001 | $ (0.05) | $ (0.00) | $ (0.00) |

The net loss for the fourth quarter of 2020 ended December 31, 2020 was $4,362,397 compared to $198,860 for the previous quarter ended September 30, 2020. The increase in loss was mainly due to an impairment write-down of inventory recorded in the fourth quarter of 2020 of $4,032,224, as well as $124,911 in non-refundable advances paid to CFPM to operate Nelson cannabis retail store for Gaia. These advances were spent on store leasehold improvements, set-up costs and payroll costs incurred in order to open the store and have it running while Gaia is waiting for the cannabis retail license to be transferred to its name.

There was limited activity in the third quarter ended September 30, 2020.

The loss for the quarter ended June 30, 2020 was significantly higher compared to the previous of subsequent quarters on 2020. During the second quarter of 2020, the Company acquired all of the issued and outstanding shares of 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc., which resulted in an impairment of intangibles of $1,039,944 included in the net comprehensive loss for the period of $1,377,950.

During the fourth quarter ended December 31, 2019, the Company recorded an unrealized gain on changes in fair value of biological assets of $2,404,615, which resulted in net income for the quarter of $296,251.

During the third quarter ended September 30, 2019, the Company completed the RTO transaction which resulted in a listing expense of $2,385,503 and higher than usual consulting and advertising fees which amounted to $484,302 and $152,472 respectively, and as a result the Company recognized a net comprehensive loss for the quarter of $3,327,219.

There was limited activity in the second quarter ended June 30, 2020, whereas the Company incurred $456,824 in net loss for the quarter primarily due to professional fees of $135,950 incurred in the period related to business development and acquisition of Gaia Bio, and loss on acquisition of Gaia Bio of $303,580 recognized in that quarter.

## RESULTS OF OPERATIONS

### For the year ended December 31, 2020

Net loss and comprehensive loss for the year ended December 31, 2020 was $6,204,638 compared to a loss and comprehensive loss of $3,492,262 for the year ended December 31, 2019. The net loss and comprehensive loss incurred during the year ended December 31, 2020 was mainly attributable to the following:

- An impairment write-down of inventory recorded in the fourth quarter of 2020 of $4,032,224 (2019 - $nil);
- An impairment write-down of intangibles of $1,039,944 (2019 - $1,112,405) recorded in connection with the acquisition of all of the issued and outstanding shares of 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. when Gaia has issued 30,000,000 common shares to Blackhawk, at a $0.035 per common share. The cost of the acquisition was allocated to the acquired right-of-use assets and the excess of consideration was initially capitalized as a lease intangible. This intangible was subsequently impaired as the Company could not substantiate recognition of a lease intangible or other type of asset at the date of acquisition and, as such, the intangible was impaired;
- Advances of $124,911 (2019 - $nil) related to the opening of Nelson cannabis retail store by Gaia through CFPM, a related company with a director and officer in common. These advances were spent on store leasehold improvements, set-up costs and payroll costs incurred in order to open the store and have it running while Gaia is waiting for the cannabis retail license to be transferred to its name;
- Management fees of $193,500 (2019 - $82,500) related to payments made to officers and directors in 2020, a full year of Gaia operating as a publicly traded company after completion of the RTO and acquisition of Gaia Bio in 2019;
- $146,758 (2019 - $105,289) in advertising and promotion fees incurred in 2020 as Gaia is continuing developing its business and looking for new business opportunities in the hemp and cannabis retail industries.

### For the three months ended December 31, 2020

During the three months ended December 31, 2020 the Company recorded a net loss of $4,362,397 as compared to a net income of $296,251 for the same period in 2019.

The net income in the comparative quarter of prior year was mainly attributable to the Company recording $2,404,615 in unrealized gain on change in fair value of biological assets at December 31, 2019.

During the fourth quarter of the current year, the Company recorded an impairment write-down of inventory of $4,032,224. In addition, the Company incurred $124,911 in non-refundable advances in connection with the opening of Nelson cannabis retail store by Gaia through a related company with a director and officer in common. In addition, the Company recorded $76,480 in an impairment of equipment based on management's impairment assessment for equipment in Lacombe, AB at December 31, 2020. This resulted in a net loss of $4,362,397 for the quarter.

## Liquidity and Capital Resources

At December 31, 2020, the Company had $774,754 (December 31, 2019 - $1,924,135) in cash to settle current liabilities of $337,512 (December 31, 2019 - $113,466).

As at December 31, 2020, the Company had working capital of $546,852 (December 31, 2019 – $5,711,754) and accumulated shareholders deficit of $9,697,120 (December 31, 2019 – $3,492,482).

During the year ended December 31, 2020, the Company experienced cash outflows of $986,967 (2019 – $3,040,656) from operating activities. During the year ended December 31, 2019, the Company completed the RTO transaction which resulted in a higher amount of listing, consulting and advertising expenses, and as a result, higher net cash outflows for the year.

Net cash used in investing activities was $80,505 (2019 – inflow of $467,506). During the year ended December 31, 2020, the Company incurred $80,505 in additions to milling equipment at Lacombe, AB. In the comparative year ended December 31, 2019, the Company spent $190,000 in cash in acquisition of property in Lamont County, AB. Also, as part of the RTO completed in 2019, the Company received cash of $657,506.

During the year ended December 31, 2020 the Company advanced $23,591 to CFPM for the purposes of purchasing inventory and made lease payments of $58,318 for the cannabis retail stores in Nelson, BC and Powell River, BC (2019 - $nil). Financing activities provided cash of $4,497,254 during the comparative year ended December 31, 2019, whereas $4,267,504 was received from share issuances and $230,000 was received from exercise of stock options.

Overall, cash decreased by $1,149,381 during the year ended December 31, 2020, as compared to an increase of $1,924,104 in the comparative year as no financings were completed in 2020 and the spending levels increased compared to the previous period due to the completion of the acquisition of Gaia Bio and continuous improvements made to the facility in Lacombe, AB, as well as acquisitions of cannabis retail stores in BC and subsequently incurred costs related to the set-up of the stores.

The Company is not subject to any externally imposed capital requirements. The Company manages the capital structure and adjusts it considering changes in economic conditions and the risk characteristics of the underlying assets. As a young growth company, issuance of equity has been the primary source of capital to date. Debt and/or equity financing may be pursued in the future as deemed appropriate to balance debt and equity. To maintain or adjust the capital structure, the Company may issue new shares, take on debt or sell assets to reduce debt. While management plans to generate revenues and to continue financing the Company through the issuances of additional equity securities or debt instruments, there can be no assurance that enough revenue or financing will occur to meet our cash needs for the next 12 months. The ability to achieve the projected future operating results is based on several assumptions which involve significant judgments and estimates, which cannot be assured. If the Company is unable to achieve the projected operating results, the Company's liquidity could be adversely impacted, and the Company may need to seek additional sources of financing. Operating results could adversely affect our ability to raise additional capital to fund operations and there is no assurance that sufficient debt or equity financing will be available, on acceptable terms, or in a timely basis.

## Related Party Transactions

During the years ended December 31, 2020 and 2019, the Company recorded:

(a) $193,500 (2019 - $82,500) in management fees paid or payable to directors of the Company;

(b) $60,000 (2019- $34,500) 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) $40,000 (2019- $21,447) in consulting fees paid to a company with officers in common; and

(e) $Nil (2019 - $278,082) was recorded as share-based compensation.

On October 1, 2020, the Company entered into an Agreement (the "Agreement") with CFPM Management Services Ltd. a company with a director in common. Pursuant to the Agreement, the Company is entitled to a fee for promotional services in the amount equal to net profits earned from business conducted at the Company's leased retail premise. To December 31, 2020, the Company has not earned nor recorded any such fees. General advances made to CFPM are non-refundable and, as such, the Company has recorded total advances of $124,911 in the statement of operations and comprehensive loss. Advances designated for the use of inventory purchases by CFPM are to be settled upon the transfer of a cannabis retail license from CFPM to the Company. The total of such advances to December 31, 2020 were $23,591. To December 31, 2020 and to date, the application for transfer is in progress, however has not been completed.

During the year ended December 31, 2020, the Company entered into a Share Exchange Agreement with Blackhawk, a public company with directors in common, for the acquisition of all of the issued and outstanding shares of the target entities as discussed above.

As at December 31, 2020, $12,476 (2019 - $Nil) is due from a company with a director in common and included in receivables and $21,000 (2019 - $14,269) is payable to a director of the Company and included in trade payables.

## Commitments

### Enagon

On April 3, 2020, 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 would acquire all of the milled hemp at Enagon's milling facility. The Company concurrently entered into an exclusive Milling Agreement (the "Milling Agreement") with Enagon, whereby Enagon will provide hemp separation and milling services to the Company. The term of each agreement was for an initial term of 2 years and to December 31, 2020, the conditions pursuant to the Offtake Agreement and Milling Agreement were not executed, mutually, by either party. To December 31, 2020, the Company has accrued $173,500 in related inventory production costs. On April 21, 2021, the Offtake Agreement and Milling Agreement were terminated.

### Leases

a) On April 21, 2020, the Company acquired a lease obligation that provides for a monthly base rent of $2,643 for 2020, $2,779 for 2021, $2,915 for 2022, $3,050 for 2023 and $3,186 for 2024. The underlying lease commitment term is for a period from November 1, 2019 to October 31, 2024. The Company was also transferred a security deposit of $4,556 which has been recorded in prepaids.

The Company recognized a lease liability obligation and associated right-of-use asset related to its lease commitment for the retail premise lease of $111,487, with no impact on remeasurement. During the year ended December 31, 2020, the Company paid lease obligations of $21,422 thereby reducing the lease liability, recorded $16,578 in depreciation of the right-of-use asset and $11,446 in interest expense.

The Company will depreciate the right-of-use asset and record interest over the remaining lease commitment period as follows:

| | Depreciation | Interest |
|---|---|---|
| 2021 | $ 24,867 | $ 14,928 |
| 2022 | 24,867 | 11,582 |
| 2023 | 24,867 | 7,380 |

| | | | | |
|---|---|---|---|---|
| 2024 | | 20,722 | | 2,217 |
| **Total** | $ | 95,323 | $ | 36,107 |

b) On April 21, 2020, the Company acquired a lease obligation that provides for a base rent of $2,057 per month commencing in 2020, with $100 monthly increase increments until 2024. The underlying lease commitment term is for a period from August 1, 2019 to July 31, 2024. The Company was also transferred a security deposit of $3,000 which has been recorded in prepaids.

The Company recognized a lease liability obligation and associated right-of-use asset related to its lease commitment for the retail premise lease of $83,398, with no impact on remeasurement. During the year ended December 31, 2020, the Company paid lease obligations of $16,896 thereby reducing the lease liability, recorded $13,106 in depreciation of the right-of-use asset and $8,529 in interest expense.

The Company will depreciate the right-of-use asset and record interest over the remaining lease commitment period as follows:

| | | Depreciation | | Interest |
|---|---|---|---|---|
| 2021 | $ | 19,726 | $ | 10,950 |
| 2022 | | 19,726 | | 8,198 |
| 2023 | | 19,726 | | 4,767 |
| 2024 | | 11,506 | | 882 |
| **Total** | $ | 70,684 | $ | 24,797 |

c) On April 21, 2020, the Company acquired a lease obligation that provides for a base rent of $1,600 per month. The underlying lease commitment term is for a period from September 1, 2018 to September 1, 2023. The Company was also transferred a security deposit of $2,500 which has been recorded in prepaids.

The Company recognized a lease liability obligation and associated right-of-use asset related to its lease commitment for the retail premise lease of $50,283, with no impact on remeasurement. During the year ended December 31, 2020, the Company paid lease obligations of $12,800 thereby reducing the lease liability, recorded $9,908 in depreciation of the right-of-use asset and $5,007 in interest expense.

The Company will depreciate the right-of-use asset and record interest over the remaining lease commitment period as follows:

| | | Depreciation | | Interest |
|---|---|---|---|---|
| 2021 | $ | 14,862 | $ | 5,848 |
| 2022 | | 14,862 | | 3,547 |
| 2023 | | 11,147 | | 915 |
| **Total** | $ | 40,871 | $ | 10,310 |

d) On July 1, 2020, the Company entered into a lease agreement that provides for a base rent of $1,200 per month. The underlying lease commitment term is for a period from July 1, 2020 to September 1, 2023. The Company paid a security deposit of $1,500 which has been recorded in prepaids.

The Company recognized a lease liability obligation and associated right-of-use asset related to its lease commitment for the retail premise lease of $36,309. During the year ended December 31, 2020, the Company paid lease obligations of $7,200 thereby reducing the lease liability, recorded $5,694 in depreciation of the right-of-use asset and $2,759 in interest expense.

The Company will depreciate the right-of-use asset and record interest over the remaining lease commitment period as follows:

| | | Depreciation | | Interest |
|---|---|---|---|---|
| 2021 | $ | 11,298 | $ | 4,385 |
| 2022 | | 11,298 | | 2,660 |
| 2023 | | 8,473 | | 686 |
| **Total** | $ | 31,069 | $ | 7,731 |

## Outstanding Share Data

Authorized: Unlimited number of common shares without par value.

As at December 31, 2020 and April 27, 2021, the Company had 232,501,981 common shares issued and outstanding.

**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%.

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 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 $36,200 on grant date using 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%.

During the year ended December 31, 2019, 2,300,000 stock options were exercised raising $230,000.

The movements in the Company's stock options for the years ended December 31, 2020 and 2019 were 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 2020 | 3,850,000 | $ 0.10 |

As at December 31, 2020 and April 27, 2021 the Company has the following stock options outstanding:

| Number of options outstanding and exercisable | Exercise price | Expiry date |
|---|---|---|
| 3,850,000 | $0.10 | August 28, 2024 |

**Warrants**

As at December 31, 2020 and April 27, 2021 the Company did not have warrants outstanding.

**Financial and Other Instruments**

The Company's financial assets and liabilities consist of cash and cash equivalents, trade payables. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The fair value of these instruments approximates their carrying value due to the short-term nature of their maturity.

**Critical Accounting Estimates**

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 in the audited financial statements for the year ended December 31, 2020.

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:

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.

*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.

## Adoption of New and Revised Standards and Interpretations

During the year ended December 31, 2020 the Company did not adopt any new accounting policies as none were scheduled for adoption in 2020.

## Off-Balance Sheet Arrangements

The Company did not enter into any off-balance sheet arrangements during the period.

## Management's Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of Management. In the preparation of these statements estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying Financial Statements.

## Risk Factors

The Investment in the common shares must be regarded as highly speculative due to the proposed nature of the Company's business and its present stage of development.

There can be no assurance that an active and liquid market for the Company's common shares will develop and an investor may find it difficult to resell the common shares.

The hemp industry involves significant risks. In addition to the risk factors described elsewhere in this MD&A, the risk factors that should be taken into account in considering the Company's business include, but are not limited to, those set out below. Any one or more of these risks could have a material adverse effect on the future prospects of the Company and the value of its securities.

### Current Global Financial Condition

Current global financial conditions have been subject to increased volatility and turmoil. These factors may affect Gaia Bio's ability to obtain equity financing in the future or, if obtained, to do so on terms favorable to the Company. If these increased levels of volatility and market turmoil continue, the Company's operations as well as the trading price of its common shares could be adversely affected.

### Industry and Hemp Product Manufacturing Risk

Hemp product manufacturing is highly speculative in nature, involves many risks and frequently is non-productive. There is no assurance that the Company's commercial efforts will be successful. At present, Gaia Bio has not begun production.

The Company may be subject to risks that could not reasonably be predicted in advance. Events such as labour disputes, environmental issues, natural disasters or estimation errors are prime examples of industry related risks. Gaia Bio attempts to balance these risks through insurance programs where required and ongoing risk assessments conducted by its management team.

**Commodity Prices**

Gaia Bio is in the business of hemp products, the market prices of which can fluctuate widely. Hemp prices ultimately depend on demand in the end markets for which hemp products are used. Demand is affected by numerous factors beyond the Company's control, including the overall state of the economy, general level of industrial production, trends in demand and government regulation. In the course of its current operations, the Company does not enter into price hedging programs.

**Environmental**

Cultivation projects and operations are subject to the environmental laws and applicable regulations of the jurisdiction in which Gaia Bio operates. Environmental standards continue to evolve and the trend is to a longer, more complete and rigid process. The Company reviews environmental matters on an ongoing basis. If and when appropriate, the Company will make appropriate provisions in its financial statements for any potential environmental liability.

**Reliance upon Key Personnel**

The Company is dependent upon a number of key management and operational personnel, including the services of certain key employees. Its ability to manage activities, and hence its success, will depend in large part on the efforts of these individuals. During times when metals prices are strong, the Company faces intense competition for qualified personnel, and there can be no assurance that Gaia Bio will be able to attract and retain such personnel at any time. Gaia Bio does not maintain "key person" life insurance. Accordingly, the loss of the services of one or more of such key management personnel could have a material adverse effect on the Company.

**Insurance**

Gaia Bio's insurance will not cover all the potential risks associated with its operations. In addition, although certain risks are insurable, it might be unable to maintain insurance to cover these risks at economically feasible premiums. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration is not generally available to Gaia Bio or to other companies in the mining industry on acceptable terms. The Company might also become subject to liability for pollution or other hazards that may not be insured against or that it may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

### Requirements to Obtain Government Permits

Government approvals and permits are currently required in connection with Gaia Bio's activities, and further approvals and permits may be required in the future. The duration and success of the Company's efforts to obtain permits are contingent upon many variables outside of its control. Obtaining government permits may increase costs and cause delays depending on the nature of the activity to be permitted and the interpretation of applicable requirements implemented by the permitting authority. There can be no assurance that all necessary permits will be obtained and if obtained, that the costs involved will not exceed Gaia Bio's estimates or that it will be able to maintain such permits. To the extent such approvals are required and not obtained or maintained, the Company may be prohibited from proceeding with planned activities.

### Joint Ventures

From time to time Gaia Bio may enter into one or more joint ventures. Any failure of a joint venture partner to meet its obligations could have a material adverse effect on such joint ventures. In addition, the Company might be unable to exert influence over strategic decisions made in connection with properties that are involved in such joint ventures.

### Controls and Procedures

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with IFRS. The design of the Company's internal control over financial reporting was assessed as of the date of this MD&A.

Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. The officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased costs of such hiring could threaten the Company's financial viability, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets and work load will enable the action. The Company has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by the CFO of the financial reports.

### Outlook

Although current management has demonstrated its ability to raise funds in the past, with the current financial market conditions and global economic uncertainty, there can be no assurance they will be able to do so in the future. The financial results and discussion do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

## Caution Regarding Forward Looking Statements

Except for historical information contained in this discussion and analysis, disclosure statements contained herein are forward-looking. Forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ materially, from those in such forward-looking statements. Forward-looking statements are made based on management's beliefs, estimates and opinions on the date the statements are made and the Company undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions or other circumstances should change. Investors are cautioned against attributing undue certainty to forward-looking statements.

## Additional Information

Additional information about the Company and its business activities is available under the Company's profile on the Canadian SEDAR website at www.sedar.com.