GAIA GROW CORP.

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Expressed in Canadian Dollars

GAIA GROW CORP.
Index to Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

MSLL CPA LLP

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Gaia Grow Corp.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated statements of Gaia Grow Corp. and its subsidiaries (the "Company") which comprise the consolidated statement of financial position as at December 31, 2021 and the consolidated statements of loss and comprehensive loss, consolidated statement of changes in equity (deficiency), and consolidated statements of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2021.

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ying Xu, CPA, CA.

/s/ MSLL CPA LLP

Chartered Professional Accountants

Vancouver, Canada

May 2, 2022

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

	December 31, 2021	December 31, 2020
	$	$
Assets		
Current assets		
Cash and cash equivalents	429,598	774,754
Prepayments and deposits (note 7)	102,669	55,819
Receivables (note 4)	154,756	53,791
Total current assets	687,023	884,364
Property and equipment (note 5)	186,778	140,615
Right-of-use assets (note 6)	1,284,836	236,191
Total assets	2,158,637	1,261,170
Liabilities and equity		
Current liabilities		
Trade payables (note 7)	269,052	47,167
Accrued liabilities	87,663	216,000
Lease liabilities – current (note 6)	185,556	74,345
Total current liabilities	542,273	337,512
Lease liabilities – non-current (note 6)	1,173,669	176,542
Warrant liabilities (note 9)	950,400	-
Total liabilities	2,666,342	514,054
Equity		
Share capital (note 9)	15,409,730	10,166,256
Reserve (note 9)	300,961	277,980
Deficit	(16,218,396)	(9,697,120)
Total equity	(507,705)	747,116
Total liabilities and equity	2,158,637	1,261,170

Nature of business and continuance of operations (note 1)
Commitments (note 13)

Approved and authorized for issuance on behalf of the Board of Directors on May 02, 2022 by:

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

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

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

	Year ended December 31,	
	2021	2020
	$	$
Revenue	6,678	-
Expenses		
Advertising and promotion	13,240	146,758
Consulting	551,109	50,987
Depreciation on property and equipment (note 5)	12,646	-
Depreciation on right-of-use assets (note 6)	175,608	49,311
Directors' fees (note 7)	218,500	193,500
Insurance	63,649	54,586
Interest (note 6)	148,121	27,728
Licenses and permits	23,386	11,913
Office and administration (note 7)	714,078	110,772
Professional fees	251,329	194,619
Rent	29,520	25,051
Repair and maintenance	29,910	-
Testing	950	-
Transfer agent	13,140	11,836
Travel	38,937	9,078
Utilities	18,362	-
Total expenses	(2,302,485)	(886,139)
Interest income	(839)	-
Other recoveries	-	(4,445)
Other income	(118,012)	-
Other expense	-	124,911
Gain from debt settlement (note 9)	(15,595)	-
Impairment of property and equipment	-	125,865
Impairment of inventory	-	4,032,224
Impairment of intangibles (note 8)	4,359,915	1,039,944
Total other	4,225,469	5,318,499
Net loss and comprehensive loss for the year	(6,521,276)	(6,204,638)
Net loss per share, basic and diluted	(0.02)	(0.03)
Weighted average number of shares outstanding, basic and diluted	288,019,677	223,436,047

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

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

	Share capital				
	Number of shares	Amount	Reserve	Deficit	Total equity (deficit)
		$	$	$	$
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 8)	30,000,000	1,050,000	-	-	1,050,000
Net loss for the year	-	-		(6,204,638)	(6,204,638)
Balance, December 31, 2020	232,501,981	10,166,256	277,980	(9,697,120)	747,116
Shares issued for					
Shares issued for acquisition of subsidiaries (note 8)	84,000,000	4,620,000	-	-	4,620,000
Shares issued for debt settlement (note 9)	1,184,500	43,630	-	-	43,630
Shares issued from private placement	23,850,000	1,118,100	-	-	1,118,100
Share issuance costs	-	(515,275)		-	(515,275)
Agents' warrants		(22,981)	22,981		-
Net loss for the year	-	-	-	(6,521,276)	(6,521,276)
Balance, December 31, 2021	341,536,481	15,409,730	300,961	(16,218,396)	(507,705)

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

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

	Year ended December 31,	
	2021	2020
	$	$
Operating activities		
Net loss for the year	(6,521,276)	(6,204,638)
Items not involving cash		
Depreciation on right-of-use assets	175,608	49,311
Depreciation on property and equipment	12,646	-
Impairment of property and equipment	-	125,865
Impairment of inventory	-	4,032,224
Interest expense for right-of-use asset	148,121	27,728
Advertising and promotion	-	66,666
Debt settlement	59,225	-
Gain from debt settlement	(15,595)	-
Impairment of intangible assets	4,359,915	1,039,944
Adjustments:		
Receivables	50,677	25,660
Prepaids	(11,096)	(5,184)
Inventory	-	(120,744)
Trade payables and accrued liabilities	(250,070)	(23,799)
Net cash used in operating activities	(1,991,845)	(986,967)
Financing activities		
Advances	-	(23,591)
Lease payments made	(264,036)	(58,318)
Shares issued for cash, net of issuance costs	1,910,725	-
Net cash generated from (used in) financing activities	1,646,689	(81,909)
Investing activities		
Purchase of equipment	-	(80,505)
Net cash used in investing activities	-	(80,505)
Decrease in cash and cash equivalents	(345,156)	(1,149,381)
Cash and cash equivalents, beginning	774,754	1,924,135
Cash and cash equivalents, ending	429,598	774,754
Cash and cash equivalents are comprised of:		
Cash	297,852	643,847
Cash equivalents	131,746	130,907
Cash, end of the period	429,598	774,754

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

1. Nature of Business and Continuance of Operations

Gaia Grow Corp. (formerly Spirit Bear Capital Corp.) ("Spirit Bear") (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 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) (note 8). 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, and during the years ended December 31, 2021 and 2020, the Company was in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada.

On April 21, 2020, the Company entered into a Share Exchange Agreement (the "Share Exchange Agreement") with Blackhawk Growth Corp. ("Blackhawk"), a public company with directors in common. Pursuant to the Share Exchange Agreement, the Company acquired all of the issued and outstanding shares of 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc., two private companies incorporated in British Columbia (the "target entities") (note 8).

On May 31, 2021 the Company acquired all of the issued and outstanding common shares of Canna Stream Solutions Ltd. ("CSS"), a privately held arm's length company continued under the laws of the Business Corporations Act (Alberta) by issuing 12,500,000 common shares at a market price of $0.055 (note 8).

On June 1, 2021 the Company acquired all of the issued and outstanding common shares of TruExtracts Inc. ("True"), a privately held arm's length company under the laws of the Business Corporations Act (Alberta) by issuing 30,000,000 common shares at a market price of $0.055 to the owners of True and 3,000,000 to finders (note 8).

On June 14, 2021 the Company acquired all of the issued and outstanding common shares of Regenco Technology Inc. ("Regenco"), a privately held arm's length company under the laws of the Business Corporations Act (Alberta) by issuing 35,000,000 common shares at a market price of $0.055 to the owners of Regenco and 3,500,000 to finders (note 8).

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

These 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 and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the year ended December 31, 2021, the Company has cash outflows from operating activities of $1,991,845 (2020 - $986,967) and as at December 31, 2021, has an accumulated deficit of $16,218,396 (2020 - $9,697,120).

The Company has minimum revenue during the twelve months ended December 31, 2021 and does not have sufficient cash to meet its administrative overhead, service its obligations or maintain its interest. Currently, based on its planned expenditures and expected cash flows, the Company will need to secure new sources of working capital to continue operations beyond an approximately twelve-month period. Management's plan is to actively secure source of funds, including possible equity and debt financing options, while at the same time focus on exercising careful cost control to sustain operations.

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

(iv) Statement of Compliance and Basis of Preparation

These 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").

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

2. Basis of Preparation (continued)

(ii) Basis of Measurement

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

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

(iii) Functional and Presentation Currency

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

(iv) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned Canadian subsidiaries. Subsidiaries are entities the Company controls when it is exposed, or has rights, to variable returns from its power to direct the relevant activities of the entity. The subsidiaries of the Company are as follows:

	Relationship	Percentage
1193805 B.C.Ltd.(1)	Subsidiary	100%
Gaia Holdings(2)	Subsidiary	100%
Gaia Bio(3)	Subsidiary	100%
1202465 B.C.Ltd. (4)	Subsidiary	100%
Patriot Cannabis Brands Inc. (4)	Subsidiary	100%
Canna Stream Solutions Inc. (5)	Subsidiary	100%
TruExtracts Inc. (5)	Subsidiary	100%
Regenco Technology Inc. (5)	Subsidiary	100%

(1) Incorporated on January 14, 2019
(2) Acquired on July 23, 2019. See note 8, 9.
(3) Acquired on July 23, 2019. See note 8, 9.
(4) Acquired on April 21, 2020. See note 8, 9.
(5) Acquired on May 31, June 1 and June 14, 2021 respectively. See note 8, 9.

The consolidated accounts include the accounts of Spirit Bear from July 23, 2019, the date of the RTO. Inter-company transactions and balances are eliminated upon consolidation.

2. Basis of Preparation (continued)

(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.

Subleases
Judgment is used in determining whether the sublease is an operating lease or a financing lease.

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

Inventory
In determining final inventory values, the Company estimates spoiled or expired inventory in as well as future selling price 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. Significant Accounting Policies

(i) Cash and Cash Equivalents

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

(ii) Biological Assets

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

(iii) Inventory

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

During the year ended December 31, 2021 and 2020, the Company recorded a provision of $Nil (2020 - $4,032,224) to inventory as a write-down to net realizable value.

(iv) Property and Equipment

Property is initially recognized at acquisition cost, including any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company's management. Equipment is recorded at cost less accumulated depreciation. The Company depreciates the cost of equipment based on straight-line method over its estimated useful live from the date it is available for use at an annual rate of 20%.

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

3. Significant Accounting Policies (continued)

(v) Impairment of long-lived assets

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

(vi) Financial instruments

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

<u>(i) Classification</u>

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For

other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

<u>(ii) Measurement</u>

<u>Financial assets and liabilities at amortized cost</u>

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

<u>Financial assets and liabilities at FVTPL</u>

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of operations. Realized and

3. Significant Accounting Policies (continued)

(vi) Financial instruments (continued)

(ii) Measurement (continued)

Financial assets and liabilities at FVTPL (continued)

unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of operations in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other Comprehensive Income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

Equity investments at FVTOCI

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

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of operations, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

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

3. Significant Accounting Policies (continued)

(vi) Financial instruments (continued)

(iv) Derecognition

Financial liabilities

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

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

(vii) Share-based payments

The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense in profit or loss over the vesting period based on the Company's estimate of equity instruments that will eventually vest. For options granted to employees, the fair value is measured at the grant date using the Black-Scholes Option Pricing Model and recognized over the vesting period. For stock options granted to nonemployees, the fair value is measured at the date at which the goods or services are received, using the Black-Scholes Option Pricing Model, if the fair value of the goods or services cannot be estimated.

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

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

(viii) Earnings (loss) per share

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

3. Significant Accounting Policies (continued)

(ix) Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements. Income tax expense (recovery) in profit or loss is the sum of current and deferred tax as explained below. Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the end of the reporting period. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

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

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

(x) Leases

Lease liabilities include the present value of future fixed payments, less any lease incentives receivable, and the exercise price of a purchase option if it is reasonably certain to be exercised. Future fixed lease payments are discounted using the Company’s incremental borrowing rate if the rate implicit in the lease is not readily determinable. The term of each lease includes its noncancellable period. The term can also include periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. After the commencement date, the Company continually measures its lease liabilities to reflect changes in lease payments, discount rates or the leases’ remaining term with an offsetting adjustment to right-of-use assets.

3. Significant Accounting Policies (continued)

(x) Leases (continued)

Each lease payment is comprised of both a financing and principal component. Financing costs are charged to the consolidated statements of operations and comprehensive loss over each lease's term. Lease payments are applied against lease liabilities using the effective interest method.

Short-term leases with an initial lease term of less than 12 months are evaluated by class of the underlying asset whereas lease payments for low-value assets are evaluated on a lease-by-lease basis. Short-term and low-value leases are expensed.

If a right-of-use asset is subsequently leased to a third party (a "sublease") and the sublease is classified as an operating lease, the Company recognizes income received on a straight-line basis over the term of the lease. If the sublease is classified as a finance lease, the Company derecognizes the right-of-use asset to the extent of the carrying value of sublease. Any difference between the right-of-use asset and the lease receivable arising from the sublease is recognized in profit or loss.

(xi) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standards and determined that there are no standards that are expected to have a material impact to the Company.

4. Receivables

Included in receivables is $85,298 (December 31, 2020 - $12,476) in amounts receivable due from related parties (note 7) and $69,058 (December 31, 2020 - $41,315) due from a government agency for input tax credits.

(Expressed in Canadian dollars)

5. Property and equipment

	Land	Computer Software	Equipment	Total
	$	$	$	$
Cost				
Balance, December 31, 2019	190,000	-	-	190,000
Additions	-	-	80,505	80,505
Impairment	(49,385)	-	(80,505)	(129,890)
Balance, December 31, 2020	140,615	-	-	140,615
Additions	-	25,069	33,740	58,809
Balance, December 31, 2021	**140,615**	**25,069**	**33,740**	**199,424**
Accumulated Amortization				
Balance, December 31, 2019	-	-	-	-
Depreciation	-	-	4,025	4,025
Impairment	-	-	(4,025)	(4,025)
Balance, December 31, 2020	-	-	-	-
Depreciation	-	7,526	5,120	12,646
Balance, December 31, 2021	**-**	**7,526**	**5,120**	**12,646**
Net book value – December 31, 2020	140,615	-	-	140,615
Net book value – December 31, 2021	**140,615**	**17,543**	**28,620**	**186,778**

Concurrent with the acquisition of Gaia Bio (note 8), pursuant to an Offer to Purchase Agreement, the Company assumed Gaia Bio's commitment to purchase a plot of land located in Lamont County, Alberta, for a purchase price of $190,000. During the year ended December 31, 2019, the Company paid $14,400 in extension fees related to the right to purchase, which was expensed. To December 31, 2019, the Company had received a Health Canada's pre-approval letter-to-build. The Company recorded a $Nil (2020 - $49,385) impairment charge in the statement of operations and loss for the year ended December 31, 2021 and 2020. As at December 31, 2021 and 2020, the Company has not commenced building on the site.

(Expressed in Canadian dollars)

6. Right-of use-assets and lease liabilities

In accordance with IFRS 16, the Company has recognized right-of-use assets and lease obligations of in relation to its leases which were acquired upon the acquisition of subsidiaries (note 8) and pursuant to a lease agreement.

The lease liabilities have been recorded at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate estimated at 16% per annum. The associated right-of-use asset is measured at the amount equal to the corresponding lease liability and subsequently depreciated and the Company will record a related interest expense from the commencement date to the earlier of the end of the lease term on a straight-line basis.

The continuity of the right-of-use assets and lease liabilities for the year ended December 31, 2021 and 2020 is as follows:

Right-of-use assets

	$
Balance as at December 31, 2019	**-**
Additions	281,477
Depreciation	(45,286)
Balance as at December 31, 2020	**236,191**
Additions	1,224,253
Amortization	(175,608)
Balance as at December 31, 2021	**1,284,836**

Lease liabilities

	$
Balance as at December 31, 2019	**-**
Additions	281,477
Interest expense	27,728
Lease payments	(58,318)
Balance as at December 31, 2020	**250,887**
Additions	1,224,253
Interest expense	148,121
Lease payments	(264,036)
Balance as at December 31, 2021	**1,359,225**
Current portion of lease liabilities	185,556
Non-current portion of lease liabilities	1,173,669

7. Related party transactions

During the years ended December 31, 2021 and 2020, the Company recorded:
(a) $218,500 (2020 - $193,500) in management fees paid or payable to directors of the Company;
(b) $229,295 (2020 - $60,000) in administrative fees recorded in office and administrative expenses, and paid to the officers or a company of which officers of the Company are employees;
(c) $Nil (2020 - $10,987) in consulting fees paid to a company with a director in common;
(d) $Nil (2020 - $21,447) in consulting fees paid to a company with officers in common;
(e) $72,822 (2020 - $Nil) in rental incomes from subleasing the office space to a company with a director in common;

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, 2021 and 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 $Nil (2020 - $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 at December 31, 2021 was $17,145 (2020 - $23,591). To December 31, 2021 and 2020, the application for transfer is in progress, however has not been completed.

As at December 31, 2021, $85,298 (2020 - $12,476) is due from a company with a director in common and included in receivables (note 4).

The related party transactions are in the normal course of business.

8. 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;
(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

(Expressed in Canadian dollars)

8. Acquisitions (continued)

Gaia Bio (continued)

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 CSE at the time of issuance, and (ii) $0.10 per share.

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. The results of operations from 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 were as follows:

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

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

1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. (the "target entities")

Pursuant to the Share Exchange Agreement with Blackhawk (note 1), 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, at a fair value of $1,050,000.

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 were leases.

(Expressed in Canadian dollars)

8. Acquisitions (continued)

1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. (the "target entities") (continued)

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.

1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. (the "target entities") (continued)

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 (note 6)	245,168
Lease liabilities (note 6)	(245,168)
Net assets acquired	10,056
Excess of consideration over net assets acquired	$ 1,039,944

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 in fiscal 2020.

Canna Stream Solutions Ltd. (the "CSS")

Pursuant to the Option to Purchase Agreement with CSS (note 1), the Company acquired all of the issued and outstanding shares of CSS for the issuance of 12,500,000 common shares of the Company, at a fair value of $687,500.

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 of CSS was an intangible asset for the technologies of storing, transportation and processing of cannabis and a patent-pending environmentally friendly solvent system.

(Expressed in Canadian dollars)

8. Acquisitions (continued)

Canna Stream Solutions Ltd. (the "CSS") (continued)

CSS has 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 CSS were included in the consolidated financial statements since the date of acquisition.

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

Consideration paid:	$ 687,500
Less: Value of net assets acquired	
Cash	23,371
Receivable	23,398
Equipment	33,740
Liabilities	(27,924)
Net assets acquired	52,585
Excess of consideration over net assets acquired	$ 634,915

The excess of consideration over net assets was initially capitalized as an intangible. As at December 31, 2021, the patent is still in the application stage and not operational and there is significant uncertainty whether the Company will continue to pursue the patent application. The Company recognized an impairment of the intangible of $634,915 during the year ended December 31, 2021.

TruExtracts Inc. ("True")

Pursuant to the Share Exchange Agreement with True (note 1), the Company acquired all of the issued and outstanding shares of True for the following consideration:

(i) the issuance of 30,000,000 common shares of the Company at a fair value of $1,650,000 and 3,000,000 shares were issued to finders, at a fair value of $165,000.
(ii) the shareholders of True may be entitled an one-time cash earn-out, up to a maximum of $1,000,000 for performance benchmarks. The earn-out period is in the twenty-four months following the closing date;
(iii) the shareholders of True may be entitled a share earn-out, to be satisfied through the issuance of common shares of the Company up to a maximum amount of $1,000,000 for hitting performance benchmarks. The earn-out period is in the twenty-four months following the closing date;
(iv) maximum payment of $500,000 to retire the existing shareholder loans, of which no more than $150,000 will be payable in cash and the remaining balance will be settled through the issuance of additional common shares of the Company. As of December, 31, 2021, the Company has paid $150,000 in cash and did not issue additional common shares to the existing shareholders of True.

(Expressed in Canadian dollars)

8. Acquisitions (continued)

TruExtracts Inc. ("True") (continued)

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 the processing license under Health Canada.

Consequently, the transaction was recorded as an acquisition of an asset. The results of operations from True were included in the consolidated financial statements since the date of acquisition.

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

Consideration paid:	
Common shares of the Company issued:	$ 1,650,000
Cash paid:	150,000
	$1,800,000
Less: Value of net assets acquired	
Cash	19,631
Receivable	85,243
Prepaid	35,754
Computer software	25,069
Payables	(165,697)
Right-of-use assets (note 6)	1,055,434
Lease liabilities (note 6)	(1,055,434)
Net assets acquired	-
Excess of consideration over net assets acquired	$ 1,800,000

As the transaction does not constitute a business combination, it has been accounted in accordance with guidance provided in IFRS 2 Share Based Payment and was treated as an issuance shares by the Company for the net monetary assets of True. The excess of consideration over net assets was allocated to specifically identified asset, which is the license. The Company could not substantiate the value of license and thus support recognition of intangible assets in relation to the license. The value of the acquired licenses was unknown either, as such, the Company recognized an impairment of the intangible of $1,800,000. Shares issued to the finder at a fair value of $165,000 were recognized as share issuance costs.

(Expressed in Canadian dollars)

8. Acquisitions (continued)

TruExtracts Inc. ("True") (continued)

In addition, the Company determined that the probability of reaching the performance benchmarks and paying the potential earn-outs has been reduced to a nominal amount due to $Nil revenue were generated from True post acquisition. Accordingly, the Company estimated the fair value of the contingent consideration to be $nil.

Regenco Technology Inc. ("Regenco")

Pursuant to the Option to Purchase Agreement with Regenco (note 1), the Company acquired all of the issued and outstanding shares of Regenco for the issuance of 35,000,000 common shares of the Company at a fair value of $1,925,000, and 3,500,000 shares were issued to finders, at a fair value of $192,500.

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 were leases. Regenco 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 a business combination. The results of operations from the target entity were included in the consolidated financial statements since the date of acquisition.

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

Consideration paid:	$ 1,925,000
Right-of-use assets (note 6)	168,819
Lease liabilities (note 6)	(168,819)
Net assets acquired	-
Excess of consideration over net assets acquired	$ 1,925,000

Upon acquisition of the target entity, 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 $1,925,000. Shares issued to the finder at a fair value of $192,500 were recognized as share issuance costs.

9. Share Capital

(a) Share capital

Authorized: Unlimited number of common shares without par value.

Issued during the year ended December 31, 2021:

On June 11, 2021, the Company issued 30,000,000 shares, at a fair value of $1,650,000, for acquisition of TruExtracts (Calgary) Inc. 3,000,000 shares at a fair value of $165,000 were issued to finders (note 8).

On June 11, 2021, the Company issued 12,500,000 shares, at a fair value of $687,500, for acquisition of Canna Stream Solutions Ltd. (note 8).

On June 18, 2021, the Company issued 35,000,000 shares, at a fair value of $1,925,000, for acquisition of Regenco Technology Inc. 3,500,000 shares at a fair value of $192,500 were issued to finders (note 8).

On July 29, 2021, the Company closed an initial tranche of a non-brokered private placement for issuance of 16,720,000 units at a price of $0.05 per unit for gross proceeds of $836,000. Each unit is comprised of one common share and one common share purchase warrant with each warrant entitling the holder to purchase an additional common share at a price of $0.055 for a period of thirty-six months after the date of issue.

The Company paid $17,500 cash commission and issued 350,000 agents' warrants to purchase common shares at $0.055 per share until July 29, 2024. The agents' warrants were valued using the Black-Scholes model resulting in fair value of $12,793 which was recorded as share issuance costs.

On August 30, 2021, the Company closed the final tranche of its non-brokered private placement for issuance of 4,650,000 units at a price of $0.05 per unit for additional gross proceeds of $232,500. Each unit is comprised of one common share and one common share purchase warrant with each warrant entitling the holder to purchase an additional common share at a price of $0.055 for a period of thirty-six months after the date of issue.

The Company paid $16,275 cash commission and issued 325,500 agents' warrants to purchase common shares at $0.055 per shares until August 30, 2024. The agents' warrants were valued using the Black-Scholes model resulting in fair value of $10,188 which was recorded as share issuance costs.

On August 31, 2021, the Company issued 934,500 shares to settle outstanding consulting fee of $46,725, resulting in a gain from debt settlement of $9,345.

9. Share Capital (continued)

(a) Share capital (continued)

On September 29, 2021, the Company entered into a share subscription purchase agreement ("Agreement") with a U.S. institutional investor. Pursuant to Agreement, the Company will place up to $3,000,000 worth of its common shares ("Shares") to the investor. The placement will be way of a lump sum prepayment of the subscription price of shares ("Placement Shares"), in three tranches. The first tranche will raise $1,000,000 in proceeds for $1,090,000 worth of Placement Shares. The second tranche will raise $1,000,000 in proceeds for $1,090,000 worth of Placement Shares. Additionally, the Company may elect to raise $1,000,000 in proceeds for Placement Shares worth the same amount in a third tranche, with the consent of the investor. The purchase price for the issue of Placement Shares will be the greater of the fixed price of $0.05 ("Fixed Price") (for the first tranche) or (for the second and third tranches) the closing price of the Shares immediately prior to the funding of that tranche and the market price of the Shares at the time of their issue, being the average of the five daily volume-weighted average prices selected by the investor during the twenty consecutive trading days immediately prior to the date of the investor's request to issue shares, less a 10% discount ("Market Price").

The investor will not be obligate to provide the second tranche, and/or may reduce the size of the second tranche, if the market price of the Company's Share is below $0.02 and does not recover to above that level within two months after the investor notified the Company so. Separately, each party will have the right to postpone the second tranche by up to three months.

The investor will be entitled to receive a make-whole payment in relation to an issue of Placement Shares if the market price of the Share is less than the Fixed Price, which payment will be equal to the value of Shares foregone as a result of the Fixed Price being the purchase price rather than such market price. The Company may elect to make this payment in Shares in lieu of cash, in the Company's sole discretion.

In September 2021, the Company received $1,000,000 from the investor as a lump sum prepayment for the subscription price of $1,090,000 worth of Placement Shares. On October 12, 2021, the Company issued initial 2,480,000 common shares towards the ultimate number of Placement Shares to be issued and issued 4,800,000 warrants exercisable until October 12, 2025 at a price of $0.05 entitling the investor to subscribe for one share per warrant for a period of forty-eight months following the closing date. Because the investor will be entitled to receive a make-whole payment if the market price of the Share is less than the Fixed Price, there is no fixed number of shares upon conversion. Therefore, 2,480,000 shares issued to the inventor was recognized at its fair value of $49,600 in the share capital, and the remaining proceeds amount of $950,400 were presented as liabilities as at December 31, 2021. The Company also incurred $124,000 share issuance costs in connection with the private placement.

On December 09, 2021, the Company issued 250,000 shares to settle outstanding accounting fee of $12,500, resulting in a gain from debt settlement of $6,250.

(Expressed in Canadian dollars)

9. Share Capital (continued)

(a) Share capital (continued)

Issued during the year ended December 31, 2020:

On April 21, 2020 the Company issued 30,000,000 shares, at a fair value of $1,050,000, for acquisition of 1202465 B.C. Ltd. and Patriot Cannabis Brands Inc. (note 8).

(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.

No stock options were granted during the years ended December 31, 2021 and 2020.

The movement in the Company's stock options for the years ended December 31, 2021 and 2020 are as follows:

	Number of options	Exercise price
Outstanding and exercisable, December 31, 2020	3,850,000	$ 0.10
Granted	-	0.10
Outstanding and exercisable, December 31, 2021	3,850,000	$ 0.10

As at December 31, 2021, 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	2.66 years

(Expressed in Canadian dollars)

9. Share Capital (continued)

(c) Warrants

On July 29, 2021, the Company issued 16,720,000 warrants exercisable at a price of $0.055 expiring on July 29, 2024, in connection with the initial tranche of the private placement. The Company also issued 350,000 warrants to the finder.

The fair value of the agents' warrants granted in July 2021 was determined using the Black-Scholes option pricing model with the following weighted average assumption:

Stock price	$0.45
Risk-free interest rate	0.55%
Expected term (in years)	3
Estimated dividend yield	0%
Weighted-average estimated volatility	157.87%

On August 30, 2021, the Company issued the additional 4,650,000 warrants exercisable at a price of $0.055 and expiring on August 30, 2024. The Company also issued 325,500 warrants to the finder.

The fair value of the agents' warrants granted in August 2021 was determined using the Black-Scholes option pricing model with the following weighted average assumption:

Stock price	$0.40
Risk-free interest rate	0.55%
Expected term (in years)	3
Estimated dividend yield	0%
Weighted-average estimated volatility	152.13%

On October 12, 2021, the Company issued 4,800,000 warrants exercisable in connection with the placement of its commons shares to a U.S. institutional investor.

(Expressed in Canadian dollars)

9. Share Capital (continued)

(c) Warrants (continued)

The movement in the Company's warrants for the years ended December 31, 2021 and 2020 are as follows:

	Number of warrants	Weighted Exercise price
Outstanding and exercisable, December 31, 2020	-	$ -
Granted	26,845,000	0.05
Outstanding and exercisable, December 31, 2021	26,845,000	$ 0.05

As at December 31, 2021, the Company has the following warrants outstanding:

Number of warrants outstanding and exercisable	Weighted Exercise price	Expiry date	Weighted average life
	$		
17,070,000	0.055	July 29, 2024	2.58 years
4,975,500	0.055	August 30, 2024	2.67 years
4,800,000	0.05	October 12, 2025	3.78 years
26,845,500	0.05		2.81 years

(d) Escrow Shares

122,730,000 common shares issued to the principals of the Company under the RTO are subject to escrow conditions required by applicable securities laws and the CSE requirements. As of December 31, 2021, the remaining 62,807,385 common shares held within escrow will be released over a period of 13 months.

(e) Reserve

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

(Expressed in Canadian dollars)

10. Income Taxes

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

	2021	2020
	$	$
Loss for the year	(6,521,276)	(6,204,638)
Statutory income tax rate	24%	27%
Expected income tax recovery at statutory income tax rate	(1,554,161)	(1,675,252)
Permanent differences	799,702	1,334,252
Change in unrecognized deferred income tax assets	554,459	341,000
Income tax expense	-	-

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

	2021	2020
	$	$
Share issuance costs	139,000	1,000
Non-capital losses	1,360,000	890,000
Plant and equipment	35,000	59,000
	1,534,000	950,000
Unrecognized deferred income tax assets	(1,534,000)	(950,000)
Net deferred tax asset	-	-

As at December 31, 2021, the Company has approximately $5,707,000 (2020 - $3,298,000) of non-capital losses in Canada that may be used to offset future taxable income, expiring between 2032 and 2041. Tax attributes are subject to review, and potential adjustment, by tax authorities.

11. 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
Advances	Amortized cost
Trade payables	Amortized cost
Lease liabilities	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.

11. Financial Instruments and Risk Management (continued)

Risk Management (continued)

(b) Market Risk

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

Interest Rate Risk
Interest rate risk is the risk that the value of a financial instrument will change due to a change in the level of interest rates. The Company is 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.

12. Capital Management

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the years ended December 31, 2021 and 2020.

(Expressed in Canadian dollars)

13. Commitments

a) 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.

b) The Company's future annual minimum lease payments for are as follows:

	$
2022	389,881
2023	385,508
2024	349,504
2025	294,650
2026	253,513
2027	253,513
2028	190,135
	2,116,704

14. Subsequent events

Subsequent to 31 December 2021, the Company has the following events:

- On February 3, 2022, Transcend Capital Inc., a company controlled by Etienne Moshevich, has transferred ownership of 9,409,500 common shares of Gaia Grow Corp., representing approximately 2.75 per cent of the issuer's current issued and outstanding common shares. Following completion of the transfer, Transcend and Mr. Moshevich have ownership and control of 25,092,000 common shares of the issuer, representing approximately 7.35 per cent of the issuer's current issued and outstanding common shares.

- On March 3, 2022, the Company issued 375,500 shares to settle outstanding consulting fee of $18,750 with an arm-length party.