



GAIA GROW CORP.

Condensed Interim Consolidated Financial Statements
For the Three and Nine Months Ended September 30, 2022 and 2021
Expressed in Canadian Dollars
(Unaudited)

GAIA GROW CORP.

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For the Three and Nine Months Ended September 30, 2022 and 2021

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**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

GAIA GROW CORP.

Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	September 30, 2022	December 31, 2021
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	26,783	429,598
Prepayments and deposits (note 7)	94,128	102,669
Receivables (note 3)	76,405	154,756
Inventory (note 4)	173,620	-
Total current assets	370,936	687,023
Property and equipment (note 5)	20,540	186,778
Right-of-use assets (note 6)	1,097,168	1,284,836
Total assets	1,488,644	2,158,637
Liabilities and equity		
Current liabilities		
Trade payables (note 7)	405,763	269,052
Accrued liabilities	73,649	87,663
Due to related parties (note 7)	194,290	-
Lease liabilities – current (note 6)	212,234	185,556
Total current liabilities	885,936	542,273
Lease liabilities – long-term (note 6)	1,010,999	1,173,669
Warrant liabilities (note 9)	425,400	950,400
Total liabilities	2,322,335	2,666,342
Equity		
Share capital (note 9)	15,415,980	15,409,730
Reserve (note 9)	300,961	300,961
Deficit	(16,550,632)	(16,218,396)
Total equity	(833,691)	(507,705)
Total liabilities and equity	1,488,644	2,158,637

Approved and authorized for issuance on behalf of the Board of Directors on November 8, 2022
by:

/s/ Frederick Pels
Frederick Pels, Director

/s/ James Tworek
James Tworek, Director

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

GAIA GROW CORP.

Condensed Interim Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Revenue	49,201	6,678	129,369	6,678
Cost of goods sold	(48,618)	-	(75,000)	-
Gross Profit	583	6,678	54,369	6,678
Expenses				
Advertising and promotion	1,065	2,113	4,027	9,519
Amortization on intangible assets	-	5,625	-	5,625
Consulting (note 7)	30,000	353,668	133,470	423,918
Depreciation on property and equipment (note 5)	2,891	11,762	8,883	11,762
Depreciation on right-of-use assets (note 6)	62,555	90,051	187,669	140,556
Directors' fees (note 7)	15,000	70,000	65,000	163,500
Insurance	14,198	16,364	40,896	50,127
Interest (note 6)	50,204	59,501	156,043	95,053
Licenses and permits	29,277	29,891	50,558	31,682
Office and administration (note 8)	19,767	71,027	83,646	131,264
Payroll	69,135	123,765	255,088	153,410
Professional fees	116,500	50,500	262,436	189,266
Rent (note 12)	2,675	37,063	27,429	46,344
Repair and maintenance	-	19,018	8,683	19,018
Testing	-	-	-	800
Transfer agent	9,334	5,084	15,307	10,929
Travel	181	2,971	904	6,173
Utilities	1,432	(4,718)	5,179	2,614
Total expenses	(424,214)	(943,685)	(1,305,218)	(1,491,560)
Interest (income)	1	(839)	1	(839)
Other expense (income)	(177,627)	27,509	(319,434)	191,770
Loss on disposal of property (note 5, 8)	-	-	41,899	-
Loss on disposal of subsidiaries (note 8)	-	-	2,363,633	-
Net loss and comprehensive loss for the period	(246,005)	(963,677)	(3,336,948)	(1,675,813)
Net loss per share, basic and diluted	(0.02)	(0.00)	(0.23)	(0.01)
Weighted average number of shares outstanding, basic and diluted	15,569,589	329,518,394	14,595,512	270,055,131

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

GAIA GROW CORP.

Condensed Interim Consolidated Statements of Changes in Equity (Deficit)

(Expressed in Canadian dollars)

	Share capital		Reserve	Deficit	Total equity (deficit)
	Number of shares	Amount			
		\$	\$	\$	\$
Balance, December 31, 2020	232,501,981	\$ 10,166,256	\$ 277,980	\$ (9,697,120)	\$ 747,116
Shares issued for acquisition of subsidiaries (note 9)	84,000,000	4,620,000	-	-	4,620,000
Debt settlement (note 9)	934,500	46,725	-	-	46,725
Cash	21,370,000	236,837	831,663	-	1,068,500
Finder's fee	-	(59,207)	25,432	-	(33,775)
Net loss for the period	-	-	-	(1,675,813)	(1,675,813)
Balance, September 30, 2021	338,806,481	\$ 15,010,611	\$ 1,135,075	\$ (11,372,933)	\$ 4,772,753
Balance, December 31, 2021	341,536,481	15,409,730	300,961	(16,218,396)	(507,705)
Shares issued for settlement of convertible debenture (note 9)	30,910,793	525,000	-	-	525,000
Shares issued for settlement of debt (note 9)	2,041,667	168,750	-	-	168,750
Sale of subsidiaries (note 8, 9)	(12,500,000)	(687,500)	-	3,004,712	2,317,212
Share consolidation (note 9)	(344,271,946)	-	-	-	-
Net loss for the period	-	-	-	(3,336,948)	(3,336,948)
Balance, September 30, 2022	17,716,995	15,415,980	300,961	(16,550,632)	(833,691)

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

GAIA GROW CORP.

Condensed Interim Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Operating activities				
Net loss for the period	(246,005)	(963,677)	(3,336,948)	(1,675,813)
Amortization on intangible assets	-	(44,880)	-	5,625
Depreciation on property and equipment	2,891	11,762	8,883	11,762
Depreciation on right-of-use assets	62,555	140,556	187,669	140,556
Interest expense for right-of-use asset	50,204	59,501	156,043	95,053
Loss on disposal of property	-	-	41,899	-
Loss on disposal of subsidiaries	-	-	2,443,268	-
Adjustments:				
Receivables	35,788	86,188	78,351	101,066
Prepays	(23,506)	(5,654)	8,541	(35,859)
Inventory	(173,620)	-	(173,620)	-
Payables and accrued liabilities	159,451	(191,423)	125,360	47,941
Advances	-	(6,446)	-	-
Net cash used in operating activities	(132,242)	(914,073)	(460,554)	(1,309,669)
Financing activities				
Due to related parties	124,290	-	194,290	-
Shares issued for debt	100,000	46,725	168,750	46,725
Shares issued for cash	-	1,034,725	-	1,034,725
Lease payments made	(98,233)	(91,858)	(294,701)	(162,731)
Net cash used in financing activities	126,057	989,592	68,339	918,719
Investing activities				
Purchase of equipment	(2,700)	(37,448)	(10,600)	(37,448)
Net cash used in investing activities	(2,700)	(37,448)	(10,600)	(37,448)
Increase (decrease) in cash and cash equivalents	(8,885)	38,071	(402,815)	(428,398)
Cash and cash equivalents, beginning	35,668	205,285	429,598	774,754
Cash and cash equivalents, ending	26,783	346,356	26,783	346,356
Cash and cash equivalents are comprised of:				
Cash	26,477	214,610	26,477	214,610
Cash equivalents	306	131,746	306	131,746
Cash, end of the period	26,783	346,356	26,783	346,356

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

GAIA GROW CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Expressed in Canadian dollars)

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). 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 to today’s date, 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). Subsequent to acquisition of the target entities, the Company is in the process of applying for retail cannabis licenses for the sale of cannabis-based products in Canada.

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.

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.

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.

GAIA GROW CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Expressed in Canadian dollars)

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

On May 10, 2022, the Company returned ownership of CSS to its original owners and disposed of CSS for no consideration. The company has arranged for the cancellation of a total of 12,500,000 common shares originally issued by Gaia as consideration for CSS.

On June 1, 2022, the Company disposed of all assets and liabilities of Gaia Bio for no consideration. Prior to the disposition, the Company was in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada.

On August 18, 2022, True has acquired the rights to manufacture and distribute Leaf & Mark's Yolo and Fubar branded cannabis lines.

On August 29, 2022, True has completed product development of Spaced Food cannabis edibles and is ready for commercial production.

These condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will be able to realize its assets and meet its obligations and continue its operations for its next fiscal year and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. For the nine months ended September 30, 2022, the Company has cash outflows from operating activities of \$460,554 (2021 - \$1,309,669) and as at September 30, 2022, has an accumulated deficit of \$16,550,632 (December 31, 2021 - \$16,218,396).

The Company has minimum revenue during the nine months ended September 30, 2022 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.

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Notes to the Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Basis of Preparation

(i) Statement of Compliance and Basis of Preparation

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

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

These condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2021. The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company’s audited consolidated financial statements for the year ended December 31, 2021. The Company’s interim results are not necessarily indicative of its results for a full year.

(ii) Basis of Measurement

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

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

(iii) Functional and Presentation Currency

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

GAIA GROW CORP.

Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(iv) Basis of Consolidation

These condensed interim 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⁾⁽⁶⁾	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.

(6) Disposed on May 10, 2022. 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.

(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.

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Notes to the Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. Basis of Preparation (continued)

(v) Critical Accounting Judgments, Estimates and Assumptions (continued)

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:

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. Receivables

Included in receivables is \$20,048 (December 31, 2021 - \$85,298) in amounts receivable due from related parties (note 7) and \$52,745 (December 31, 2021 - \$69,058) due from a government agency for input tax credits.

4. Inventory

Inventory is comprised of finished product in the form of retail cannabis products and accessories.

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Notes to the Condensed Interim Consolidated Financial Statements
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 (Expressed in Canadian dollars)

5. Property and equipment

	Land	Computer Software	Equipment	Total
	\$	\$	\$	\$
Cost				
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
Additions	-	10,600	-	10,600
Disposed (note 8)	(140,615)	-	(33,740)	(174,355)
Balance, September 30, 2022	-	35,969	-	35,969
Accumulated Amortization				
Balance, December 31, 2020	-	-	-	-
Depreciation	-	7,526	5,120	12,646
Balance, December 31, 2021	-	7,526	5,120	12,646
Depreciation	-	7,603	1,280	8,883
Disposed (note 8)	-	-	(6,400)	(6,400)
Balance, September 30, 2022	-	15,129	-	15,129
Net book value – December 31, 2021	140,615	17,543	28,620	186,778
Net book value – September 30, 2022	-	20,540	-	20,540

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Notes to the Condensed Interim Consolidated Financial Statements
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5. Property and equipment (continued)

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 \$49,385 impairment charge in the statement of operations and loss for the year ended December 31, 2020. As at May 10, 2022, the Company has not commenced building on the site, and disposed of this plot of land to a third party for \$110,000 before fees and commissions of \$11,707, resulting in a loss on disposal of \$41,899.

On May 10, 2022, the Company returned ownership of CSS to its original owners and disposed of CSS for no consideration.

On June 1, 2022, the Company disposed of all assets and liabilities of Gaia Bio for no consideration.

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 the target entities (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 nine months ended September 30, 2022 and the year ended December 31, 2021 is as follows:

Right-of-use assets

	\$
Balance as at December 31, 2020	236,191
Additions	1,224,253
Amortization	(175,608)
Balance as at December 31, 2021	1,284,836
Amortization	(187,669)
Balance as at September 30, 2022	1,097,168

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Notes to the Condensed Interim Consolidated Financial Statements
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6. Right-of use-assets and lease liabilities (continued)

Lease liabilities

	\$
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
Interest expense	156,043
Utilities expense	2,664
Lease payments	(294,698)
Balance as at September 30, 2022	1,223,234
Current portion of lease liabilities	212,234
Non-current portion of lease liabilities	1,011,000

7. Related party transactions

During the nine months ended September 30, 2022 and 2021, the Company recorded:

- (a) \$65,000 (2021 - \$163,500) in director fees paid or payable to directors of the Company;
- (b) \$85,259 (2021 - \$Nil) in cost recoveries from a company with a director in common;
- (c) \$61,833 (2021 - \$Nil) in rental income from a company with a director in common;
- (d) \$194,490 (2021 - \$Nil) in loans from a director of the Company

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 September 30, 2022 and December 31, 2021, 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 (2021 - \$82,994) in the statement of operations and comprehensive loss during the nine months ended September 30, 2022. 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 September 30, 2022 was \$17,145 (December 31, 2021 - \$17,145). To September 30, 2022, the application for transfer is in progress, however has not been completed.

As at September 30, 2022, \$20,048 (December 31, 2021 - \$85,298) is due from a company with a director in common and included in receivables (note 3), \$26,250 (December 31, 2021 - \$Nil) is owed to companies with directors in common and included in payables, and \$194,290 (December 31, 2021 - \$Nil) is due to a director of the Company.

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

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Notes to the Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Expressed in Canadian dollars)

8. Acquisitions

Gaia Bio-Pharmaceuticals Inc. (“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 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 pursuing the license application and recognized an impairment of the intangible of \$1,112,405 in fiscal 2019.

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8. Acquisitions (continued)

Gaia Bio-Pharmaceuticals Inc. (“Gaia Bio”) (continued)

On June 1, 2022, the Company disposed of all assets and liabilities of Gaia Bio for no consideration. Prior to the disposition, the Company was in the business of developing a facility and infrastructure for the manufacturing and marketing of hemp-based products in Canada.

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.

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	
Prepays	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.

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8. Acquisitions (continued)

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.

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.

On May 10, 2022, the Company returned ownership of CSS to its original owners and disposed of CSS for no consideration. The company has arranged for the cancellation of a total of 12,500,000 common shares originally issued by Gaia as consideration for CSS.

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8. Acquisitions (continued)

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.

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.

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8. Acquisitions (continued)

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.

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.

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8. Acquisitions (continued)

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.

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9. Share Capital

(a) Share capital

Authorized: Unlimited number of common shares without par value.

During the nine months ended September 30, 2022:

On March 8, 2022, the Company issued 375,500 shares, at a fair value of \$18,750, to settle outstanding professional fees of \$18,750.

On April 1, 2022, the Company issued 11,538,462 shares, at a fair value of \$150,000, to settle outstanding liabilities of \$150,000.

On May 6, 2022, the Company issued 1,000,000 shares, at a fair value of \$50,000, to settle outstanding professional fees of \$50,000.

On May 10, 2022, the Company issued 16,666,667 shares, at a fair value of \$150,000, to settle outstanding liabilities of \$150,000.

On June 30, 2022, the Company cancelled 12,500,000 shares, which were issued as consideration for CSS.

On August 9, 2022, the Company consolidated its issued and outstanding common shares on the basis of one post-consolidated common share for every 25 pre-consolidated common shares.

On August 11, 2022, the Company issued 800,000 shares, at a fair value of \$80,000, to settle outstanding liabilities of \$80,000.

On August 23, 2022, the Company issued 1,558,442 shares, at a fair value of \$120,000, to settle outstanding liabilities of \$120,000.

On September 15, 2022, the Company issued 666,667 shares, at a fair value of \$100,000, to settle outstanding professional fees of \$100,000.

On September 20, 2022, the Company issued 347,222 shares, at a fair value of \$25,000, to settle outstanding liabilities of \$25,000.

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.

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9. Share Capital (continued)

(a) Share capital (continued)

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.

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.

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.

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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 fees of \$12,500, resulting in a gain from debt settlement of \$6,250.

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9. Share Capital (continued)

(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 nine months ended September 30, 2022 or the year ended December 31, 2021.

The movement in the Company’s stock options for the nine months ended September 30, 2022, and year ended December 31, 2021 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
Granted	-	0.10
Outstanding and exercisable, September 30, 2022	3,850,000	\$ 0.10

As at September 30, 2022, 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	1.91 years

(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%

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9. Share Capital (continued)**(c) Warrants (continued)**

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.

The movement in the Company's warrants for the nine months ended September 30, 2022 and year ended December 31, 2021 are as follows:

	Number of warrants	Exercise price
Outstanding and exercisable, December 31, 2020	-	\$ -
Granted	26,845,000	0.05
Outstanding and exercisable, September 30, 2022 & December 31, 2021	26,845,000	\$ 0.05

As at September 30, 2022, 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	1.83 years
4,975,500	0.055	August 30, 2024	1.92 years
4,800,000	0.05	October 12, 2025	3.04 years
26,845,500	0.05		2.06 years

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9. Share Capital (continued)

(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 September 30, 2022, no common shares are held within escrow.

(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.

10. Financial Instruments and Risk Management

Financial Instruments

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

The fair value hierarchy has the following levels:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (ii) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

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

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10. Financial Instruments and Risk Management (continued)

Risk Management

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts, which is mainly held with reputable Canadian banks. Therefore, credit risk on the Company's cash deposits is assessed as relatively low.

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

(b) Market Risk

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

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will change due to a change in the level of interest rates. The Company is not exposed to any significant interest rate risk.

Foreign Exchange Rate

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

Price Risk

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

(c) Liquidity Risk

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

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11. Capital Management

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

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

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2021 to the period ended September 30, 2022.

12. Commitments

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

	\$
Rest of 2022	97,849
2023	385,508
2024	344,904
2025	299,250
2026	253,513
2027	253,513
2028	190,135
	<u>1,824,671</u>

13. Subsequent events

There are no subsequent events to report as this time.