KIARO HOLDINGS CORP.

Condensed Consolidated Interim Financial Statements

For the three and nine months ended October 31, 2022 and 2021

(Unaudited, expressed in Canadian Dollars, unless otherwise stated)

KIARO HOLDINGS CORP.
Condensed Consolidated Interim Statements of Financial Position
As at October 31, 2022 and January 31, 2022
(Expressed in Canadian Dollars)

	Note	**October 31, 2022**	**January 31, 2022**
		(unaudited)	(audited)
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		1,257,816	2,351,758
Trade and other receivables	6	96,707	297,799
Prepaid and deposits	7	285,679	375,334
Inventory	8	584,433	2,771,763
Net investment in finance lease	10	25,314	200,924
Assets held for sale	19	2,786,284	-
		5,036,233	5,997,578
Non-current assets			
Lease deposits	7	170,333	170,333
Property and equipment	9	1,981,811	4,615,733
Right-of-use assets	10	3,797,747	7,653,558
Net investment in finance lease	10	-	6,613
Intangible assets and goodwill	11	2,202,737	2,250,420
		8,152,628	14,696,657
TOTAL ASSETS		**13,188,861**	**20,694,235**
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		2,272,466	2,954,235
Due to related parties	14	25,000	50,000
Current portion of lease liabilities	10	1,047,380	1,007,160
Current portion of long-term liabilities	12	804,629	858,281
Liabilities associated with assets held for sale	19	3,150,220	-
		7,299,695	4,869,676
Non-current liabilities			
Long-term portion of lease liabilities	10	4,233,029	5,092,320
Deferred tax liability		230,303	230,303
Embedded derivative liabilities	12	175,000	199,298
Long-term liabilities	12	2,847,777	2,619,335
		7,486,109	8,141,256
TOTAL LIABILITIES		**14,785,804**	13,010,932
SHAREHOLDERS' EQUITY			
Share capital	13	36,625,674	36,336,242
Reserves	13	5,217,394	4,997,926
Accumulated deficit		(43,440,011)	(33,650,865)
TOTAL LIABILITIES		(1,596,943)	7,683,303
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**13,188,861**	**20,694,235**

Going Concern (Note 1)
Commitments and Contingencies (Note 17)
Subsequent Events (Note 21)

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

/s/ Usama Chaudhry Director
Usama Chaudhry

/s/ Jatinder Dhaliwal Director
Jatinder Dhaliwal

KIARO HOLDINGS CORP.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Three and nine months ended October 31, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

	Notes	Three months ended October 31 2022	2021	Nine months ended October 31 2022	2021
		$	$	$	$
Revenue	15	5,743,725	5,203,986	19,205,822	12,892,840
Cost of sales	8	4,172,327	3,327,132	12,838,370	8,132,007
Gross profit		1,571,398	1,876,854	6,367,452	4,760,833
Operating expenses					
Consulting and professional fees		1,321,798	278,811	2,227,459	628,703
Depreciation and amortization	9,10,11	585,611	648,903	2,017,550	1,564,211
General and administration expense		763,186	427,064	1,981,904	998,413
Marketing, meals and entertainment		39,592	118,371	342,176	330,502
Salaries and employee benefits	14	1,946,671	1,493,152	5,759,741	3,662,052
Share based compensation	13,14	-	164,786	11,420	624,015
		4,656,858	3,131,087	12,340,250	7,807,896
Other expenses (income)					
Finance expense	10,12	(363,367)	(244,474)	(1,163,837)	(523,891)
Transaction cost of business combinations	6,7	-	(116,329)	-	(301,521)
Realized foreign exchange gain (loss)		5,103	(209)	(4,639)	(293)
Other income		9,232	32,054	62,334	146,029
Gain (loss) on modification and termination of leases	10	-	20,475	(120,554)	20,475
Gain (loss) on modification and extinguishment of debt	12	-	35,750	25,000	44,496
Change in fair value of derivative liabilities	12	-	955	(702)	713
Gain on disposal of assets	9	355,231	-	313,184	-
Impairment of right-of-use assets	20	(2,284,232)	-	(2,284,232)	-
Impairment of Leasehold Improvements	20	(1,553,075)	-	(1,553,075)	-
Loss before income tax		(6,916,569)	(1,526,011)	(10,699,319)	(3,661,055)
Deferred income tax recovery		-	262,182	-	262,182
Net loss from continuing operations		**(6,916,569)**	**(1,263,829)**	**(10,699,319)**	**(3,398,873)**
Income from discontinued operations		**460,594**	**184,163**	**910,173**	**275,688**
Net loss and comprehensive loss		**(6,455,975)**	**(1,079,666)**	**(9,789,146)**	**(3,123,185)**
Loss per share, basic and diluted	19	**(0.25)**	**(0.05)**	**(0.40)**	**(0.15)**
Weighted average common shares outstanding - basic and diluted	19	27,359,533	21,080,016	26,999,205	21,080,016

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

KIARO HOLDINGS CORP.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
Nine months ended October 31, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

	Notes	Common Shares Number of Shares	Common Shares Amount	Reserve	Deficit	Total Equity
			$	$	$	$
Balance, January 31, 2021		17,356,568	26,386,873	2,901,540	(24,459,419)	4,828,994
Shares issued in private placement, net of costs	13	1,896,524	2,630,287	-	-	2,630,287
Shares issued as consideration, net of costs	4,13	6,759,630	6,948,518	-	-	6,948,518
Shares issued as consideration for services	13	-	22,600	-	-	22,600
Shares issued as consideration for bonuses	13	133,333	133,333	-	-	133,333
Warrants issued in private placement	13	-	(959,872)	1,205,650	-	245,778
Warrants issued as consideration	13	-	-	387,047	-	387,047
Contingent shares as consideration	13	-	-	670,000	-	670,000
Conversion component in private placement	13	-	-	463,086	-	463,086
Share-based compensation	13	-	-	624,015	-	624,015
Net loss and comprehensive loss for the period		-	-	-	(3,123,185)	(3,123,185)
Balance, October 31, 2021		**26,146,055**	**35,161,739**	**6,251,338**	**(27,582,604)**	**13,830,473**
Balance, January 31, 2022		26,816,055	36,336,242	4,997,926	(33,650,865)	7,683,303
Shares issued in private placement, net of costs	13	10,000,000	289,432	208,048	-	497,480
Share-based compensation	13	-	-	11,420	-	11,420
Net loss and comprehensive loss for the period		-	-	-	(9,789,146)	(9,789,146)
Balance, October 31, 2022		**36,816,055**	**36,625,674**	**5,217,394**	**(43,440,011)**	**(1,596,943)**

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

KIARO HOLDINGS CORP.
Condensed Consolidated Interim Statements of Cash Flows
Nine months ended October 31, 2022 and 2021
(Unaudited - Expressed in Canadian Dollars)

		2022		2021
Cash provided by (used in):				
Operating activities:				
Net loss from continuing operations	$	**(10,699,319)**	$	**(3,398,873)**
Non-cash items:				
Depreciation and amortization		**2,017,550**		1,564,210
Share-based compensation		**11,420**		624,015
Shares issued for services		**-**		22,600
Shares issued for bonuses		**-**		133,333
Foreign exchange (gain)/loss		**-**		292
Finance expense		**962,673**		523,891
Other income		**(12,219)**		(54,211)
Change on fair value of embedded derivative		**702**		(713)
Gain on disposal of assets		**(313,184)**		-
(Gain)/loss on modification and extinguishment of debt		**(25,000)**		(8,746)
(Gain)/loss on modification and termination of lease		**120,554**		(20,475)
Deferred income tax recovery		**-**		(262,182)
Impairment of right-of-use assets		**2,284,232**		-
Impairment of property and equipment		**1,553,075**		-
Changes in non-cash working capital:				
Trade and other receivables		**(6,897)**		(77,201)
Prepaids and deposits		**78,975**		(104,984)
Inventory		**845,725**		63,251
Due to related parties		**(25,000)**		(144,575)
Accounts payable and accrued liabilities		**994,517**		669,240
Net cash provided by discontinued operations		**1,822,385**		1,080,865
		(389,811)		609,737
Investing activities:				
Property and equipment		**(79,476)**		(733,505)
Lease deposits		**-**		(10,553)
Business combination		**-**		(487,158)
Acquisition of license		**-**		(695,000)
Net cash used in investing activities of discontinued operations		**(244,682)**		(3,479)
		(324,158)		(1,929,695)
Financing activities:				
Payments received on net investment in finance lease		**94,221**		158,261
Payments on lease obligations		**(821,447)**		(918,602)
Interest paid		**(16,877)**		(5,600)
Repayment of loans		**(100,000)**		(35,000)
Issuance of common shares, net of issuance costs		**497,480**		2,630,288
Issuance of convertible debentures, net of transaction costs		**-**		3,518,318
Net cash used in financing activities of discontinued operations		**(33,350)**		(49,467)
Cash provided by financing activities		**(379,973)**		5,298,198
Net change in cash and cash equivalents		**(1,093,942)**		3,978,240
Cash and cash equivalents, beginning		**2,351,758**		1,304,829
Cash and cash equivalents, ending	$	**1,257,816**	$	**5,283,069**

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

1) NATURE OF OPERATIONS AND GOING CONCERN

Kiaro Holdings Corp. (formerly DC Acquisition Corp. ("DCA"), the "Company" or "Kiaro") is a publicly traded company with the head office and principal address located at 300 - 110 East Cordova Street, Vancouver, British Columbia, Canada V6A 1K9. The Company is traded on the TSX Venture Exchange ("TSX-V") under the symbol "KO".

Kiaro Brands Inc. ("KBI") was formed on September 9, 2019, through the amalgamation of Aura Cannabis Inc. ("Aura") and Elora Capital Ltd. ("Elora"), via an amalgamation agreement entered on July 24, 2019. Aura was incorporated under the Business Corporation Act of British Columbia on December 11, 2017 and was formed to own and operate cannabis retail stores in various provinces of Canada. Elora was incorporated under the Business Corporation Act of British Columbia on March 13, 2018 and was formed for the primary purpose of identifying and evaluating assets or businesses with a view of completing a transaction. Following the amalgamation, both Aura and Elora were dissolved.

On October 13, 2020, the Company completed a reverse takeover transaction (the "Qualifying Transaction"). In connection with the Qualifying Transaction: (a) DCA completed a share consolidation of its shares on the basis of one post-consolidation DCA shares for every 1.7142857143 pre-consolidation DCA shares to establish a one for one exchange ratio of common shares of the Company for DCA Shares; (b) changed its name to "Kiaro Holding Corp." from DCA (a Capital Pool Company); and (c) continued the Company under the federal jurisdiction of Canada under the Canada Business Corporations Act. Results of the Qualifying Transaction are described in Note 5.

The Company has seventeen operating licensed retail cannabis locations throughout British Columbia, Saskatchewan, and Ontario (Note 4 & 5); an eCommerce platform offering consumption accessories in Canada, the USA, and Australia (Note 4); and a wholly owned subsidiary, National Cannabis Distribution Inc. ("NCD"), which wholesales cannabis products to other licensed retailers in Saskatchewan.

On September 27, 2022, the Company has consolidated its capital on a new one-new-for-10-old basis. All share figures have been retroactively adjusted to reflect the share consolidation (Note 13).

These condensed consolidated interim financial statements are presented for accounting purposes as a continuation of KBI, reflecting the acquisition of DCA on a reverse acquisition basis.

Going Concern Assumption

These condensed consolidated interim financial statements for the nine months ended October 31, 2022, have been prepared on the going concern basis, which assumes that the Company will continue to operate and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management is aware, in making its going concern assessment, of material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

As of October 31, 2022, the Company has an accumulated deficit of $43,440,011 (January 31, 2022 - $33,650,865) since inception. For the nine months ended October 31, 2022, the Company also incurred a cash flow from operations of $(389,811) (October 31, 2021 - $609,737) and a net loss of $9,789,146 (October 31, 2021 - $3,123,185). The continued operations of the Company are dependent on future profitable operations, management's ability to manage costs and the future availability of equity or debt financing. Whether and when the Company can generate sufficient operating cash flows to pay for its expenditures and settle its obligations as they fall due is uncertain. These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

(Unaudited - Expressed in Canadian Dollars)

2) BASIS OF PRESENTATION AND MEASUREMENT

a) Statement of Compliance

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and interpretations of the IFRS Interpretations Committee ("IFRIC").

These condensed consolidated interim financial statements were approved by the Board of Director on December 30, 2022.

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for stock options, warrants and certain financial instruments measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information, and include all adjustments considered necessary for fair presentation by the Company's management.

c) Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries on a consolidated basis after elimination of intercompany transactions and balances. These condensed consolidated interim financial statements include the operating results of acquired entities from the date control commences until the day control ceases.

The operating subsidiaries the Company has control over are as follows:

Subsidiaries	Ownership
	%
2687921 Ontario Inc.	100
2734524 Ontario Inc.	100
Kiaro Australia Pty Ltd.	100
Kiaro Brands Inc.	100
Kiaro Digital Ltd. (formerly Kiaro Retail BC Ltd.)	100
Kiaro Retail Inc.	100
National Cannabis Distribution Inc.	100
8651159 Canada Inc. (formerly Sculthorp SEO Inc.)	100
2209917 Alberta Ltd.	100
1374496 BC Ltd.	100

(Unaudited - Expressed in Canadian Dollars)

2) BASIS OF PRESENTATION AND MEASUREMENT *(continued)*

d) Functional and Presentation Currency

The Canadian dollar is the presentation currency of the Company. The functional currencies of the Company and its subsidiaries are as follows:

Subsidiaries	Functional Currency
2687921 Ontario Inc.	Canadian dollar
2734524 Ontario Inc.	Canadian dollar
Kiaro Australia Pty Ltd.	Australian dollar
Kiaro Brands Inc.	Canadian dollar
Kiaro Digital Ltd. (formerly Kiaro Retail BC Ltd.)	Canadian dollar
Kiaro Retail Inc.	Canadian dollar
National Cannabis Distribution Inc.	Canadian dollar
8651159 Canada Inc. (formerly Sculthorp SEO Inc.)	Canadian dollar
2209917 Alberta Ltd.	Canadian dollar

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Assets and liabilities of subsidiaries having a currency other than the Canadian dollar are translated at the rate of exchange at the reporting date. Revenues and expenses are translated at average rates for the periods, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Any resulting foreign currency translation adjustments are recognized in other comprehensive loss.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies disclosed in the notes to the annual consolidated financial statements of the Company for the year ended January 31, 2022, have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

4) ACQUISITION OF 8651159 CANADA INC.

On July 12, 2021, the Company acquired 100% ownership in share of 8651159 Canada Inc. (formerly Sculthorp SEO Inc. “Cozy”), a private company based in Toronto, Ontario, operating one cannabis retail store in Toronto and three eCommerce business platforms in Canada, the US, and Australia to diversify the Company’s revenue stream.

At closing of the acquisition, the purchase price of $1,361,123 was paid by the Company as follows:

- $818,518 paid by issuance of 629,629 common shares of the Company at $1.30 per share which is the trading price at acquisition date;
- $500,000 paid by cash; and
- $42,605 paid in cash for working capital adjustment.

The acquisition was accounted for in accordance with IFRS 3 Business Combinations as a business combination, with the assets and liabilities acquired estimated at their fair value at the acquisition date. The excess of consideration over the fair value of the net assets acquired has been recorded as an intangible assets and goodwill.

(Unaudited - Expressed in Canadian Dollars)

4) ACQUISITION OF 8651159 CANADA INC. *(continued)*

Based on Management's assessment of the fair value of the net assets acquired in the Cozy transaction, the total identifiable net assets was $931,609, resulting in goodwill on acquisition of $429,514 (Note 11).

The acquired business contributed revenues of $1.55 million and net loss of $0.08 million to the group for the period from July 12, 2021 to January 31, 2022. If the transaction had closed on February 1, 2021, the Company estimates revenue would have increased by approximately $2.55 million and the impact on profit/loss from operations would have not been material for the fiscal year ended January 31, 2022.

	$
Consideration of the acquisition in shares	818,518
Consideration of the acquisition in cash	500,000
Working capital adjustment	42,605
Total consideration issued	1,361,126
Cash	(35,555)
Inventory	(264,944)
Property and equipment	(3,234)
Prepaid	(3,463)
Right-of-use assets	(142,682)
Intangible assets - eCommerce brand/domain	(842,000)
Intangible assets - Retail license	(17,000)
Intangible assets - Retail brand	(23,000)
Lease liability	142,682
Accrue liability	23,858
Deferred income tax liability	233,729
Total identifiable net assets at fair value	(931,609)
Goodwill	429,514

In connection with the acquisition, the Company acquired a lease of the retail location in Toronto. The Company has measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use asset was measured at an amount equal to the lease liability and will subsequently be amortized over the remaining lease period (Note 10).

5) ACQUISITION OF 2734524 ONTARIO INC.

On September 24, 2021, the Company acquired 100% ownership in share of 2734524 Ontario Inc. ("Hemisphere Cannabis" or "Hemisphere"), from Aegis Brand Inc. ("Aegis"), which included six operating cannabis retail stores in Ontario and two additional retail leases to further the Company's expansion plan within Canada.

At closing of the acquisition, the purchase price of $7,590,594 was paid by the Company as follows:

- $6,130,000 paid by issuance of 6,130,000 common shares of the Company at $1.00 per share, which is the trading price at acquisition date;
- $310,572 paid by issuance of 670,000 warrants where one warrant is exercised for one common share at an exercisable price of $1.60 per common share (Note 13);
- $91,034 promissory note (Note 12 (i));
- $670,000 paid by issuance of 670,000 common shares at $1.00 per share, which is the trading price at acquisition date, for the achievement of certain commercial milestones within the first year following closing of the acquisition which has been met (Note 13); and
- $388,988 paid in cash for working capital adjustment.

(Unaudited - Expressed in Canadian Dollars)

5) ACQUISITION OF 2734524 ONTARIO INC. *(continued)*

The acquisition was accounted for in accordance with IFRS 3 Business Combinations as a business combination, with the assets and liabilities acquired estimated at their fair value at the acquisition date. The excess of consideration over the fair value of the net assets acquired has been recorded as an intangible assets and goodwill.

Based on Management's assessment of the fair value of the net assets acquired in the Hemisphere transaction, the total identifiable net assets was $6,882,720, resulting in goodwill on acquisition of $707,874 (Note 11).

The acquired business contributed revenues of $2.64 million and net loss of $0.96 million to the group for the period from September 24, 2021 to January 31, 2022. If the transaction had closed on February 1, 2021, the Company estimates revenue would have increased by approximately $6.29 million and the impact on profit/loss from operations would have not been material for the fiscal year ended January 31, 2022.

	$
Consideration of the acquisition in shares	6,130,000
Consideration of the acquisition in warrants	310,572
Consideration of the milestone event in shares	670,000
Promissory note	91,034
Working capital adjustment	388,988
Total consideration issued	7,590,594
Cash and cash equivalents	(41,680)
Trade and other receivables	(29,616)
Prepaids and deposits	(28,514)
Inventory	(542,512)
Lease deposits	(35,544)
Property and equipment	(2,774,290)
Right-of-use assets	(4,500,000)
Intangible assets - Retail brand	(340,000)
Intangible assets - Retail license	(3,562,000)
Lease liability	4,500,761
Accounts payable and accrued liabilities	188,289
Deferred income tax liability	283,347
Total identifiable net assets at fair value	(6,882,720)
Goodwill	707,874

In connection with the acquisition, the Company acquired eight leases of the retail locations in Ontario. The Company has measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition. The right-of-use asset was measured at an amount equal to the lease liability and will subsequently be amortized over the remaining lease period (Note 10).

6) TRADE AND OTHER RECEIVABLES

	October 31, 2022	**January 31, 2022**
	$	$
Trade receivables	76,009	198,303
Taxes receivables	-	7,723
Other receivables	20,698	91,773
	96,707	297,799
Current portion	96,707	297,799
Long-term portion	-	-

(Unaudited - Expressed in Canadian Dollars)

7) PREPAID AND DEPOSITS

	October 31, 2022	January 31, 2022
	$	$
Prepaid	250,605	349,960
Lease deposits	170,333	170,333
Other deposits	35,074	25,374
	456,012	545,667
Current prepaid expenses and deposits	285,679	375,334
Other and long-term lease deposits	170,333	170,333

8) INVENTORY

As at October 31, 2022, the Company had inventory totaling $584,433 (January 31, 2022 - $2,771,763), which consists of finished products including recreational cannabis and accessories purchased from third parties for resale. During the three and nine months ended October 31, 2022, $4,172,328 and $12,838,370 (October 31, 2021 - $3,327,132 and $8,132,008) of inventory was recognized as cost of sales.

9) PROPERTY AND EQUIPMENT

	Furniture and fixture	Computer equipment	Leasehold improvement	Software	Website	Total
Cost	$	$	$	$	$	$
Balance, January 31, 2022	150,067	872,045	5,509,365	164,245	72,622	6,768,344
Additions	6,871	10,104	23,686	45,687	-	86,348
Disposals (note 20)	(41,581)	-	(2,725,999)	(27,378)	-	(2,794,958)
Held for sale (note 19)	(14,426)	(4,910)	(79,378)	(16,240)	-	(114,954)
Balance, October 31, 2022	100,931	877,239	2,727,674	166,314	72,622	3,944,780
Accumulated depreciation	$	$	$	$	$	$
Balance, January 31, 2022	72,241	327,846	1,573,087	109,686	69,751	2,152,611
Disposals (note 20)	(28,493)	-	(845,622)	(25,945)	-	(900,060)
Held for sale (note 19)	(6,141)	(2,839)	(72,763)	(16,240)	-	(97,983)
Depreciation and amortization	21,722	259,879	505,173	20,054	1,573	808,401
Balance, October 31, 2022	59,329	584,886	1,159,875	87,555	71,324	1,962,969
Net book value	$	$	$	$	$	$
Balance, January 31, 2022	77,826	544,199	3,936,278	54,559	2,871	4,615,733
Balance, October 31, 2022	41,602	292,353	1,567,799	78,759	1,298	1,981,811

(Unaudited - Expressed in Canadian Dollars)

10) LEASES

Right-of-use assets

The following table illustrates the right-of-use asset balances relating to retail spaces, offices, and warehouses:

Cost	**$**
Balance, January 31, 2022	7,653,558
Amendments	174,296
Termination of lease	(237,679)
Depreciation	(1,161,466)
Impairment (note 20)	(2,284,232)
Asset held for sale	(346,730)
Balance, October 31, 2022	3,797,747

Lease liabilities

The following table illustrates the lease liabilities balances relating to retail spaces, offices, and warehouses:

Cost	**$**
Balance, January 31, 2022	6,099,480
Amendments	254,995
Termination of lease	(472,355)
Payments, net of interest	(279,339)
Liability associated with assets held for sale (note 19)	(322,372)
Balance, October 31, 2022	5,280,409
Current portion	1,047,380
Long-term portion	4,233,029

For the three and nine months ended October 31, 2022, the Company recognized an interest expense on lease liabilities in the amount of $171,589 and $575,458 (October 31, 2021 - $183,545 and $388,471) in the condensed consolidated interim statements of loss and comprehensive loss.

For the nine months ended October 31, 2022, the Company recognized cash outflow for leases of $854,797 (October 31, 2021 - $20,472) in the condensed consolidated interim statement of cash flows.

The company used an incremental borrowing rate of 14% at the date of the initial application for leases acquired in business combinations (Note 4 and 5).

The contractual obligation of the lease liability is disclosed in Note 18 for financial liabilities with contractual maturities.

Net investment in finance lease

The Company has entered into third party sublease agreements. The Company's net investment in finance lease is presented in the condensed consolidated interim statements of financial position as follows:

Cost	**$**
Balance, January 31, 2022	207,537
Termination of lease	(100,220)
Interest accretion	12,219
Lease receipts	(94,221)
Balance, October 31, 2022	25,314
Current portion	25,314
Long-term portion	-

(Unaudited - Expressed in Canadian Dollars)

10) LEASES *(continued)*

Net investment in finance lease *(continued)*

The following table sets out a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis, reconciliation to the net investment in lease:

	$
Less than 1 year	26,649
1- 2 years	-
2 - 3 years	-
> 3 years	-
Total undiscounted lease payments receivable	26,649
Less: interest accretion	
Net investment in lease, October 31, 2022	

11) INTANGIBLE ASSETS AND GOODWILL

		Intangible Assets		
	Goodwill	License	Brand & Intellectual Property	Total
	$	$	$	$
Balance, January 31, 2021	458,588	150,000	-	608,588
Additions from business combination (Cozy)	429,514	17,000	865,000	1,311,514
Additions from business combination (Hemisphere)	707,874	3,562,000	340,000	4,609,574
Amortization	-	(155,838)	(39,667)	(195,505)
Impairment	(756,918)	(3,039,667)	(287,466)	(4,084,051)
Balance, January 31, 2022	839,058	533,495	877,867	2,250,420
Amortization	-	(37,515)	(10,168)	(47,683)
Balance, October 31, 2022	839,058	495,980	867,699	2,202,737

12) LONG-TERM LIABILITIES

	October 31, 2022	January 31, 2022
	$	$
Promissory notes (i)	104,629	95,579
Convertible debenture (ii-iv)	3,547,777	3,327,495
Canada Emergency Business Account Loan (v)	-	54,542
	3,652,406	3,477,616
Current portion	804,629	858,281
Long-term portion	2,847,777	2,619,335

Promissory Note

(i) On September 24, 2021, the Company entered into an agreement with Aegis (Note 5) for a promissory note in the amount of $104,629 interest-free and is due no later than September 24, 2022. The promissory note shall not be convertible into the Company's securities at any time.

12) LONG-TERM LIABILITIES *(continued)*

Promissory Note *(continued)*

(i) The promissory note was initially recognized at fair value, determined at net present value of future payment of principal of $91,034 at an effective interest rate of 14%. As at October 31, 2022, the promissory note remains outstanding.

During the three and nine months ended October 31, 2022, $2,161 and $9,050 was recorded as accretion expense on the promissory note and was included as finance expense in the condensed consolidated interim statements of loss and comprehensive loss

Convertible Debentures

(ii) On February 1, 2020, the Company entered into an unsecured convertible debenture agreement with a third party in the amount of $100,000. The convertible debenture bears interest at 8% and matures on February 1, 2022. The lender may, at any time, convert all or portion of the principal into common shares of the Company at a value of $4.32 per common share. The Company recognized a derivative liability of $24,281 on inception of the convertible debentures using an effective interest rate of 22%. On February 1, 2022, the principal balance of $100,000 convertible debt remained and accrued interest of $16,877 was paid in full.

(iii) During the year ended January 31, 2021, the Company settled three promissory notes with unsecured convertible debentures totaling $1,750,000 to companies related to a director of the Company. The convertible debentures bear interest of 8% and matured on May 31, 2022. The Company recognized a derivative liability of $435,234 on inception of the convertible debentures using an effective interest rate of 22%. On October 13, 2020, upon completion of the Qualifying Transaction, one of these convertible debentures with a principal balance of $750,000, derivative liability of $186,830 and accrued interest of $22,097 were converted to common shares at a deemed price per common share of $1.44. In addition, one of the debentures issued for $300,000 was settled with a loan receivable on July 31, 2020, including accrued interest of $4,332. A gain of $4,418 was recorded on the settlement of this debt.

On June 24, 2022, the Company entered into a non-binding term sheet with the holder of the convertible debentures. As at October 31, 2022, the completion of the amending agreement remains subject to completion of final documentation and approval of the TSXV. As at October 31, 2022, the principal balance of $700,000 of convertible debentures remains outstanding.

As at October 31, 2022, interest payable related to the convertible debentures of $139,067 (January 31, 2022 - $93,333) was accrued and included in accounts payable and accrued liabilities. During the three and nine months ended October 31, 2022, $18,401 and $85,193 (October 31, 2021 - $14,000 and $42,000) was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the condensed consolidated interim statements of loss and comprehensive loss.

(iv) On October 28, 2021, the Company completed a private placement of 376 convertible debenture units of the Company (the “Units”) at a price of $10,000 per unit, for gross proceeds of $3,759,000. Each unit consists of one 8% senior unsecured convertible debenture (each, a "Convertible Debenture") having a face value of $1,000, maturing October 28, 2024, and convertible into common shares of the Company (each a "Common Share") at a conversion price of $1.30 per Common Share (the "Conversion Price"), subject to the terms of a convertible debenture indenture dated October 28, 2021 (the "Debenture Indenture"), between the Company and Odyssey Trust Company, as debenture trustee; and 385 Common Share purchase warrants of the Company (the "Warrants").

The Convertible Debentures are also subject to an accelerator option, whereby the Company shall have the right but not the obligation to convert some or all the then outstanding Convertible Debentures into Common Shares at the Conversion Price, if the 30-day volume weight average price of the Common Shares on the TSX Venture Exchange is greater than $2.60. Each Warrant entitles the holder thereof to purchase one Common Share at $1.60 per Common Share until October 28, 2024. The aggregate and pre-tax value of the

(Unaudited - Expressed in Canadian Dollars)

12) LONG-TERM LIABILITIES *(continued)*

Convertible Debentures *(continued)*

(iv) Warrants is $308,171 was calculated using the Black-Scholes model with a risk-free interest rate of 1.04%, a volatility of 89.88%, and was initially recorded in reserve for equity instruments.

The transaction costs of $343,277 were allocated on a proportionate basis to the debt and the residual component. The liability component was initially recognized at fair value, determined at net present value of future payments of interest and principal and net of transaction costs. The fair value of the liability component, net of transaction costs, ($2,475,079) was deducted from the face value of the instrument with the residual value, net of transaction costs and deferred income tax recovery at the rate of 27%, ($686,670) being allocated to the share conversion feature ($453,047) and the warrant component ($233,623) on a proportionate fair value basis. The effective interest rate on the convertible debenture is 13.53%.

In connection with the Convertible Debenture, the lead agents received a cash commission as a part of the transaction costs in the aggregate amount of $232,882 and 186,385 non-transferable broker warrants (the “Broker Warrants”). Each Broker Warrant is exercisable into one Common Share until October 28, 2024, at a price of $1.30 per Common Share. The aggregate and pre-tax value of the Broker Warrants is $44,024 was calculated using the Black-Scholes model with a risk-free interest rate of 1.04%, a volatility of 89.88%, and an expected life of three years, and was initially recorded in reserve for equity instruments.

As at October 31, 2022, the principal balance of $3,759,000 remains outstanding and interest payable related to the convertible debentures of $100,240 (January 31, 2022 - $25,060) was accrued and included in accounts payable and accrued liabilities. During the three and nine months ended October 31, 2022, $173,431 and $508,524 was recorded as interest and accretion expense on the convertible debentures and was included as finance expense in the condensed consolidated interim statements of loss and comprehensive loss.

Details of movements in the convertible loan balances are as follows:

	Convertible Debenture	Derivative Liability	Total
	$	$	$
Balance, January 31, 2022	3,327,495	199,298	3,526,793
Convertible debt settled (ii)	(100,000)	(25,000)	(125,000)
Accretion of convertible	320,282	-	320,282
Change in fair value of derivative	-	702	702
Balance, October 31, 2022	3,547,777	175,000	3,722,777

Key assumptions that were used in the fair value of embedded derivative include the risk-free interest rate (2.60%). During the nine months ended October 31, 2022, the change in fair value of embedded derivative liability of $702 (October 31, 2021 - $713) was recognized in the condensed consolidated interim statements of loss and comprehensive loss.

Canada Emergency Business Account (“CEBA”) Loan

(v) On April 29, 2020, the Company entered into an unsecured agreement with a third party for a CEBA loan in the amount of $40,000, which was subsequently increased to $60,000 on December 24, 2020. The intention of the loan was to assist businesses with losses incurred during the COVID-19 pandemic. The loan is interest free until December 31, 2023, and 5% interest thereafter from January 1, 2024, until the loan is repaid in full. The loan is to be repaid by interest only payments beginning on January 1, 2024, and the balance by December 31, 2025. The effective interest used is 10%. During the three and nine months ended October 31, 2022, $1,533 and $3,027 (October 31, 2021 - $1,345 and $2,614) was recorded as interest expense on the CEBA loan and was included as finance expense in the condensed consolidated interim statement of loss and comprehensive loss.

13) SHARE CAPITAL

Authorized

Unlimited number of common and preferred shares, without par value.

On September 27, 2022, the Company has consolidated its capital on a new one-new-for-10-old basis. All share figures have been retroactively adjusted to reflect the share consolidation.

Shares Issued and Outstanding

As at October 31, 2022, 36,816,055 common shares (January 31, 2021 - 26,816,055) were issued and outstanding. As at October 31, 2022, the escrowed share balance was 294,656.

Following the completion of the Qualifying Transaction, Kiaro had a number of securities under escrow to be released in accordance with escrow agreements. The escrowed shares shall be released pro-rata to the shareholders where 10% was issued at notice of final acceptance of the Qualifying Transaction by the TSX-V and the remainder in six equal tranches of 15% every six months thereafter for a period of 36 months. These escrowed shares may not be transferred, assigned and or otherwise dealt without the consent of the regulatory authorities.

Shares Issued

During the nine months ended October 31, 2022:

On October 26, 2022, the Company closed a non-brokered private placement comprising 10,000,000 units at a price of $0.05 per unit for gross proceeds of $500,000. Each unit comprises one common share and one common share purchase warrant of the Company. Each warrant will be exercisable into a common share of the Company for a period of 24 months at an exercise price of $0.05 for 24 months from issuance. The fair value of the warrants was estimated to be $208,048, which was determined using the Black-Scholes Option Pricing Model with the following assumptions: expected life – 2 years; volatility – 168.47%; risk-free interest rate – 3.87%; dividend rate – 0%. The Company paid share issuance costs of $2,520.

During the nine months ended October 31, 2021:

On March 11, 2021, the Company issued 1,875,000 common shares at a price of $1.60 per common share in a bought deal private placement with gross proceeds of $3,000,000, excluding transaction costs of $369,713.

On May 28, 2021, the Company issued 21,524 common shares at a price of $1.05 per common share for services rendered to a third-party vendor at a value of $22,600. The value of the shares issued is based off the value of the services.

On July 12, 2021, the Company issued 629,629 common shares at a price of $1.30 per common share, which represents the share consideration for the acquisition of Sculthorp SEO Inc. of $818,518.

On September 24, 2021, the Company issued 6,130,000 common shares at the market price of $1.00 per common share, which represents the share consideration for the acquisition of 2734524 Ontario Inc. of $6,130,000.

On September 24, 2021, the Company issued 133,333 common shares at the market price of $1.00 per common share for bonuses to the Company's Officers.

Warrants

During the three and nine months ended October 31, 2022, the Company recorded $nil in stock-based compensation for warrants (October 31, 2021 - $(4,631) and $17,664, respectively).

(Unaudited - Expressed in Canadian Dollars)

13) SHARE CAPITAL *(continued)*

Warrants *(continued)*

During the nine months ended October 31, 2022:

On October 26, 2022, the Company issued 10,000,000 warrants related to the common shares issued in the bought deal private placement at an exercise price of $0.05. Each warrant will be exercisable into a common share of the Company for a period of 24 months from issuance. The total value of the warrants issued was $208,048.

During the nine months ended October 31, 2021:

On March 11, 2021, the Company issued 937,500 warrants related to the common shares issued in the bought deal private placement at an exercise price of $2.30. In addition, the Company issued 131,250 broker warrants exercisable at $1.60 to the brokers of this private placement. Each broker warrant consists of one common share and a one-half warrant, equal to 65,625 warrants exercisable at $2.30. The total value of the warrants issued was $455,368, net of transaction costs.

On September 24, 2021, the Company issued 670,000 warrants related to the common shares issued in the acquisition of Hemisphere at an exercise price of $1.60.

On October 28, 2021, the Company issued 1,445,711 warrants related to the common shares issued in the private placement of convertible debentures (Note 11 (v)) at an exercise price of $1.60. In addition, the Company issued 186,385 broker warrants exercisable at $1.30 to the brokers of this private placement. Each broker warrant consists of one common share exercisable at $1.30. The total value of the warrants issued was $358,918.

The following table summarizes the movement in warrants for the nine months ended October 31, 2022:

	Warrants Outstanding	Weighted Average Exercise Price
	#	$
Balance, January 31, 2022	3,610,499	1.78
Issued	10,000,000	0.05
Expired	(8,958)	2.00
Balance, October 31, 2022	13,601,541	0.51

Details of warrants outstanding as at October 31, 2022, is as follows:

Expiry Date	Warrants Outstanding	Warrants Exercisable	Exercise Price
	#	#	$
Dec 10, 2022 - July 9, 2028	230,695	230,695	2.00
March 11, 2024	131,250	131,250	1.60
March 11, 2024	937,500	937,500	2.30
September 24, 2024	670,000	670,000	1.60
October 28, 2024	1,445,711	1,445,711	1.60
October 28, 2024	186,385	186,385	1.30
October 29, 2024	10,000,000	10,000,000	0.05
	13,601,541	13,601,541	

The weighted average remaining life for the warrants outstanding is 2.37 years.

(Unaudited - Expressed in Canadian Dollars)

13) SHARE CAPITAL *(continued)*

Stock Options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time-to-time grant to directors, officers, employees and technical consultants to the Company options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of outstanding common shares.

During the three and nine months ended October 31, 2022, the Company recorded stock-based compensation of $nil and $11,420, respectively (October 31, 2021 - $169,416 and $606,351, respectively) for options vested.

During the nine months ended October 31, 2022, no options were granted.

On February 25, 2022, the Company amended a total of 276,250 options' exercise price of $2.00 to $1.00 in respect of certain outstanding options issued to employees of the Company to reflect the market price at the time of the repricing.

During the nine months ended October 31, 2021:

The Company granted 477,500 options to the Company's advisory board member and employees at an exercise price of $2.00 per options for a period of 10 years with immediate to three years vesting periods.

The Company granted 75,000 options to the Company's consultant at an exercise price of $2.00 per options for a period of 3 years with immediate vesting.

The following table summarizes the movements in the Company's stock-options:

	Options Outstanding	**Weighted Average Exercise Price**
	#	$
Balance, January 31, 2022	1,078,260	2.02
Cancelled	(67,083)	1.00
Expired	(192,000)	1.36
Original exercise price	(263,750)	2.00
Repricing	263,750	1.00
Balance, October 31, 2022	819,177	1.81

Details of options outstanding as at October 31, 2022, are as follows:

	Weighted Average Remaining Life	**Options Outstanding**	**Options Exercisable**	**Exercise Price**
	#	#	#	$
August 2, 2023	0.76	58,344	58,344	1.70
February 23, 2024 - November 24, 2031	6.88	595,000	563,333	2.00
September 25, 2029 - October 12, 2031	7.83	165,833	93,958	1.00
	6.67	819,177	715,635	

(Unaudited - Expressed in Canadian Dollars)

14) RELATED PARTY TRANSACTIONS

Related parties include the Company's Officers and Directors. Transactions with related parties were conducted in the normal course of operations and are measured at the amount of consideration established and approved by the related parties.

Compensation for key management personnel is shown in the following table:

	Nine months ended	
	October 31, 2022	October 31, 2021
Salaries and benefits	646,443	514,583
Consulting fee	107,115	-
Share-based compensation	15,539	232,300
Total key management compensation	769,097	746,883

As at October 31, 2022, the Company has payables to related parties of $25,000 (January 31, 2022 - $50,000).

As at October 31, 2022, the Company has a convertible debenture with a balance of $700,000 that matured May 31, 2022, owing to a company controlled by the former CEO, with interest owing on the convertible debenture of $139,067 (January 31, 2022 - $93,333) (Note 12 (iii)).

15) REVENUE

Major components of revenue are as follows:

	Three months ended		**Nine months ended**	
	October 31, 2022	October 31, 2021	October 31, 2022	October 31, 2021
Recreation Cannabis	4,904,558	4,559,837	16,476,569	11,848,334
Accessories and Other	839,167	644,149	2,729,253	1,044,506
	5,743,725	5,203,986	19,205,822	12,892,840

The Company did not have any significant exposure to any individual customer as at October 31, 2022 and January 31, 2022.

16) SEGMENTED INFORMATION

Throughout the three and nine months ended October 31, 2022, the Company operated in three segments. These segments targeted different customers and are managed separately because they require different personnel, sales, and marketing strategies.

The following describes the operations of each reportable segment:

(i) Retail Cannabis Stores - The Company operates retail locations to sell and distribute cannabis and cannabis related products to individual consumers.

(ii) Wholesale Cannabis Business - The Company owns and operates a wholesale cannabis business through its wholly owned subsidiary NCD in the Province of Saskatchewan. NCD purchases finished goods from licensed producers and sells to retail cannabis operators in the province.

(iii) eCommerce - The Company owns and operates three eCommerce businesses that sell consumption accessories through its wholly owned subsidiaries Kiaro Digital Ltd. and Kiaro Australia Pty Ltd.

Corporate is not an operating segment and contains the Company's corporate, strategic, and administrative activities. The majority of the Company's assets and revenue is earned and located in Canada.

(Unaudited - Expressed in Canadian Dollars)

16) SEGMENTED INFORMATION *(continued)*

Nine months ended October 31, 2022	Retail cannabis stores	Wholesale cannabis business	Ecommerce	Corporate	Eliminations and adjustments	Total
	$	$	$	$	$	$
Revenue	17,206,251	9,792,055	1,999,571	-	-	28,997,877
Intercompany revenue	-	825,625	-	-	(825,625)	-
Revenue from discontinued operation	-	-	-	-	(9,792,055)	(9,792,055)
Total revenue	17,206,251	10,617,680	1,999,571	-	(10,617,680)	19,205,822
Cost of sales	11,077,832	9,439,265	1,760,537	-	(825,962)	21,451,672
Cost of sales from discontinued operations	-	-	-	-	(8,613,302)	(8,613,302)
Gross profit (loss)	6,128,419	1,178,415	239,034	-	(1,178,416)	6,367,452
Net profit (loss)	(5,828,917)	918,160	(142,849)	(4,716,552)	(929,161)	(10,699,319)
Total assets	5,148,856	4,997,698	1,836,010	1,206,297	-	13,188,861
Total liabilities	6,499,494	3,150,220	238,587	4,897,503	-	14,785,804

Nine months ended October 31, 2021	**Retail cannabis stores**	**Wholesale cannabis stores**	**Ecommerce**	**Corporate**	**Eliminations and adjustments**	**Total**
	$	$	$	$	$	$
Revenue	12,162,584	5,948,560	730,257	-	-	18,841,401
Intercompany revenue	-	1,475,365	-	-	(1,475,365)	-
Total revenue	12,162,584	7,423,925	730,257	-	(1,475,365)	18,841,401
Cost of sales	7,586,875	6,759,753	545,133	-	(1,478,601)	13,413,160
Gross profit (loss)	4,575,709	664,172	185,124	-	3,236	5,428,241
Net profit (loss)	559,244	272,451	71,223	(4,029,339)	3,236	(3,123,185)
Total assets	15,796,720	2,180,264	222,195	12,056,740	-	30,225,919
Total liabilities	9,876,080	1,960,532	151,390	4,437,444	-	16,425,446

Three months ended October 31, 2022	Retail cannabis stores	Wholesale cannabis business	Ecommerce	Corporate	Eliminations and adjustments	Total
	$	$	$	$	$	$
Revenue	5,257,485	3,614,232	486,240	-	-	9,357,957
Intercompany revenue	-	80,151	-	-	(80,151)	-
Revenue from discontinued operation	-	-	-	-	(3,614,232)	(3,614,232)
Total revenue	5,257,485	3,694,383	486,240	-	(3,694,383)	5,743,725
Cost of sales	3,632,144	3,212,502	540,183	-	(83,507)	7,301,322
Cost of sales from discontinued operations	-	-	-	-	(3,128,994)	(3,128,994)
Gross profit (loss)	1,625,341	481,881	(53,943)	-	(481,882)	1,571,398
Net profit (loss)	(5,051,248)	465,625	(132,410)	(1,721,973)	(476,563)	(6,916,569)
Total assets	5,148,856	4,997,698	1,836,010	1,206,297	-	13,188,861
Total liabilities	6,499,494	3,150,220	238,587	4,897,503	-	14,785,804

(Unaudited - Expressed in Canadian Dollars)

16) SEGMENTED INFORMATION *(continued)*

Three months ended October 31, 2021	**Retail cannabis stores**	**Wholesale cannabis stores**	**Ecommerce**	**Corporate**	**Eliminations and adjustments**	**Total**
	$	$	$	$	$	$
Revenue	4,614,740	2,280,172	589,246	-	-	7,484,158
Intercompany revenue	-	470,216	-	-	(470,216)	-
Total revenue	4,614,740	2,750,388	589,246	-	(470,216)	7,484,158
Cost of sales	2,883,544	2,433,502	443,588	-	(471,142)	5,289,492
Gross profit (loss)	1,731,196	316,886	145,658	-	926	2,194,666
Net profit (loss)	170,633	183,238	48,403	(1,482,866)	926	(1,079,666)
Total assets	15,796,720	2,180,264	222,195	12,056,740	-	30,225,919
Total liabilities	9,876,080	1,960,532	151,390	4,437,444	-	16,425,446

17) COMMITMENTS AND CONTINGENCIES

In October 2021, the Company entered into an insurance contract with a term of less than 12 months. As at October 31, 2022, the minimum remaining payments were estimated to be as follows:

	$
Less than 1 year	31,448
1- 2 years	-
2 - 3 years	-
> 3 years	-
Total commitments and contingencies	31,448

In the normal course of business, the Company and its subsidiaries may become defendants in certain employment claims and other litigation. The Company records a liability when it is probable that a loss has been incurred and the amount can be reasonably estimated. The Company is not involved in any legal proceedings other than routine litigation arising in the normal course of business, none of which the Company believes will have a material adverse effect on the Company's business, financial condition or results of the operations.

(Unaudited - Expressed in Canadian Dollars)

18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The table below summarizes the carrying values of the Company's financial assets and financial liabilities:

	October 31, 2022	**January 31, 2022**
Financial assets	$	$
Amortized cost		
Cash and cash equivalents	1,257,816	2,351,758
Trade and other receivables (exclude sales taxes receivable)	96,707	290,076
Refundable lease deposits	150,333	150,333
Net investment in finance lease	25,314	207,537
Total financial assets	1,530,170	2,999,704
Financial liabilities		
Financial liabilities at FVTPL		
Embedded derivative liability	175,000	199,298
Financial liabilities at amortized cost		
Accounts payable, accrued liabilities and others (exclude sales taxes payable)	2,088,476	2,859,910
Due to related parties	25,000	50,000
Lease liabilities	5,280,409	6,099,480
Long-term liabilities	3,652,406	3,477,616
Total financial liabilities	11,221,291	12,686,304

Financial Risk Management Objectives and Policies

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risk, credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility. Financial risks are primarily managed and monitored through operating and financing activities. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

A summary of the Company's risk exposures as they relate to financial instruments is reflected below:

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

a) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. As at July 11, 2021, with the acquisition of 8651159 Canada Inc., the Company began to operate outside of Canada with foreign currency bank accounts and transacted in foreign currencies. The Company’s exposure to currency risk as at October 31, 2022, represented approximately 6.0% of total sales and 2.5% of total operating expenses. The Company was not exposed to currency risk as at October 31, 2022. Based on the balances as at October 31, 2022, a 1% increase or decrease in the Canadian dollar exchange rate against all other currencies on that date would have resulted in an increase or decrease of approximately $7,000 (October 31, 2021 - $nil) in loss before taxes.

(Unaudited - Expressed in Canadian Dollars)

18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Market Risk *(continued)*

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash bears interest at market rates. The Company's long-term liabilities with fixed rates of interest do not expose the Company to interest rate risk.

c) Price risk

Price risk is the risk of variability in fair value due to movements in equity or market prices. The Company is currently not subject to price risk. In the prior year and until date of sale, the Company's investments in the marketable securities were susceptible to price risk arising from uncertainties about their future values. The fair value of these investments is based on quoted market prices which the shares of the investments can be exchanged for.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

As at October 31, 2022, the Company had $1,257,816 in cash and cash equivalents (January 31, 2022 - $2,351,758). The Company is obligated to pay financial liabilities with total carrying amounts to $7,299,695 (January 31, 2022 - $4,869,676) in the next 12 months.

As at October 31, 2022, the Company's financial liabilities have contractual maturities as summarized below:

	Due within less than 1 year $	1 - 2 years $	2 - 3 years $	3 - 4 years $	> 4 years $	Total $
Accounts payable and accrued liabilities (excluding sale taxes payable)	2,088,476	-	-	-	-	2,088,476
Due to related parties	25,000	-	-	-	-	25,000
Lease liabilities	787,130	591,677	554,042	647,012	2,700,548	5,280,409
Long-term liabilities	1,228,176	301,720	3,860,569	62,000	-	5,452,465
Total	4,128,782	893,397	4,414,611	709,012	2,700,548	12,846,350

Credit Risk

Credit risk arises from cash and cash equivalents held with banks, and trade and other receivable (excluding sales taxes receivable). The Company does not have a significant concentration of credit risk with any customer and its maximum risk exposure is equal to the carrying value of the financial assets. The objective of managing credit risk is to prevent loss on financial assets. The Company minimizes credit risk as cash and cash equivalents are held by reputable financial institutions. The Company is not aware of any material collection issues.

(Unaudited - Expressed in Canadian Dollars)

18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Credit Risk *(continued)*

The Company applies the IFRS 9 simplified model of recognizing lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. Trade receivables are written off when there is no reasonable expectation of recovery.

The following table summarizes the Company's aging of trade receivables (excluding sales taxes receivable) and expected credit losses as at October 31, 2022:

	0 - 30 days $	31 - 60 days $	61 - 90 days $	> 90 days
Trade receivables (exclude sales taxes receivable)	3,878	21,487	1,666	48,979
Expected credit losses	-	-	-	-
Total	3,878	21,487	1,666	48,979

The Company performs a regular assessment of collectability of accounts receivables. In determining the expected credit loss amount, the Company considers the customer's financial position, payment history and economic conditions. For the nine months ended October 31, 2022, management reviewed the estimates and have not created any loss allowances on trade receivables as they are not considered overdue.

COVID-19 Risk and other world events

Beginning March 2020, the outbreak of the novel strain of coronavirus ("COVID-19"), has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to business globally resulting in a significant economic slowdown.

The armed conflict between Russia and Ukraine and any restrictive actions that are or may be taken by Canada, the United States and other countries in response thereto, such as sanctions or export controls, could have negative implications on the financial markets generally.

The duration and impact of these world events are unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its subsidiaries in future periods.

To date, the Company has not seen significant impacts on operations as a result of these world events and has adapted by implementing new safety protocols. The Company is closely monitoring the impact of the pandemic on all aspects of the business.

Fair Value Measurement

The Company classifies its financial instruments using a fair value hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 - Quoted market prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3 - Unobservable inputs such as inputs for the asset or liability that are not based on observable market data.

(Unaudited - Expressed in Canadian Dollars)

18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(continued)*

Fair Value Measurement *(continued)*

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

				October 31, 2022
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Embedded derivative liability	-	-	175,000	175,000
Total	-	-	175,000	175,000

The Company estimates the fair value of embedded derivative liability at each reporting date using discounted cash flow model. The significant unobservable input used in the model was the interest rate of 2.98% (January 31, 2022 - 1.23%).

For cash and cash equivalents, trade and other receivables (excluding sales taxes receivable), refundable lease deposits, accounts payable and accrued liabilities (excluding sales taxes payable), and due to related parties, fair value approximates their carrying value at the period end due to their short-term maturities. For net investment in finance lease, purchase liability and long-term liabilities, fair value approximates their carrying value at the fiscal year end as the interest rates used to discount the host contracts approximate market rates.

19) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On September 14, 2022, the Company's wholly owned subsidiary, National Cannabis Distribution Inc. (NCD), and its wholly owned subsidiary, Kiaro Brands Inc. (KBI), have entered into an amended and restated share purchase and sale transaction with 1371511 B.C. Ltd. (Purchaser), whereunder KBI sold to the purchaser all issued and outstanding shares in the capital of NCD.

In consideration for the Shares, the Purchaser will pay KBI $500,000 in cash on closing. Under the Transaction, the Purchaser has further agreed to pay KBI an earn-out payment of up to $1,000,000 (the "Earn-Out Payment") based on certain financial thresholds payable in case to the extent earned and as described herein on January 31, 2023. Specifically, KBI will be entitled to (i) a $1,000,000 Earn-Out Payment if the EBITDA Margin for the period of August 2022 to January 2023 (the "Earn-Out Period") is equal to or greater than 6.8% and the aggregate Sales are equal to or greater than $7,750,000, or (ii) a $500,000 Earn-Out Payment if the EBITDA Margin for the Earn-Out Period is equal or greater than 6.8% and the aggregate Sales are equal to or greater than $6,000,000 and less than $7,750,000. No Earn-Out Payment will be payable in the event the aggregate Sales for the Earn-Out Period are less than $6,000,000, and/or the EBITDA Margin is less than 6.8% in aggregate. The Company reclassified the assets and liabilities of NCD as held for sale as of October 31, 2022. The value was determined based on the lower of the carrying value of the net assets and the fair value less costs to sell, as follows:

Cash consideration	$	500,000
Carrying value of assets of NCD:		
Cash and cash equivalents		237,811
Trade and other receivables and prepaids		1,212,176
Inventory		1,029,559
Property and equipment		16,971
Right of use assets		289,767
Assets held for sale		2,786,284
Carrying value of liabilities of NCD:		
Accounts payable and accrued liabilities		2,768,871
Lease liabilities		322,372
Long-term liabilities		58,977
Liabilities associated with assets held for sale	$	3,150,220

(Unaudited - Expressed in Canadian Dollars)

19) ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

	Three months ended October 31		Nine months ended October 31	
	2022	**2021**	**2022**	**2021**
	$	$	$	$
Revenue	3,614,232	2,280,172	9,792,055	5,948,561
Cost of sales	3,128,994	1,962,360	8,613,303	5,281,153
Gross profit	485,236	317,812	1,178,752	667,408
Operating expenses				
Consulting and professional fees	-	-	11,448	41,000
Depreciation and amortization	19,526	18,116	56,963	54,163
General and administration expense	1,631	14,454	36,112	48,059
Marketing, meals and entertainment	63	439	393	6,365
Salaries and employee benefits (Recovery)	(4,901)	95,183	144,339	224,500
	16,319	128,192	249,255	374,087
Other expenses (income)				
Finance expense	(8,322)	(5,457)	(19,403)	(18,015)
Other income	-	-	79	382
Income from discontinued operations	**460,595**	**184,163**	**910,173**	**275,688**

20) DISPOSAL OF ASSETS

Sale of Retail Assets

The Company, through its wholly owned subsidiary, Kiaro Brands Inc. (KBI), has entered into and closed a transaction on September 12, 2022, with Synergy Five Investments LP, by its general partner, Synergy Five Investments Inc., pursuant to which KBI disposed of all of the assets of the business used in connection with KBI's operation of two cannabis retail stores in the province of Saskatchewan located at 1220 La Ronge Ave., La Ronge, Sask., and 212 20th St. W, Saskatoon, Sask.

In consideration for the Saskatchewan Retail Assets, KBI received cash proceeds of $809,930, being $600,000 plus the cost of the inventory. During the nine months ended October 31, 2022, the company recognized gain on sale of assets of $355,231 in the statement of loss and comprehensive loss.

Closure of retail stores:

During the nine months ended October 31, 2022, the Company closed five of its stores in Ontario. The Company recognized impairment of leasehold improvements of $1,553,075 and impairment of right-of-use assets of $2,284,232 associated with the closed stores.

21) SUBSEQUENT EVENTS

On November 28, 2022, further to Kiaro’s news release dated November 10, 2022, the Company entered into an amended and restated letter of intent dated November 28, 2022, with The Marketing Alliance Inc. (the purchaser) to the sale and disposition of three Hemisphere retail locations located at (a) suite 100 -- 65 Front St., Toronto, Ont., M5E 1B5, (b) 955 Westney Rd., South Ajax, Ont., L1S 3K7, and (c) 171 Rideau St., Ottawa, Ont., K1N 9P1 (the assets).

In consideration for the assets, the purchaser has agreed to pay to Kiaro $485,000 in cash on closing of the transaction. Kiaro has agreed that on closing of the transaction, it shall have inventory with a cost value of no less than $195,000. Should the cost value of the inventory be lower than $195,000, the purchaser will have the option of reducing the purchase price by the shortfall amount or by providing an inventory list to Kiaro to replenish the

21) SUBSEQUENT EVENTS *(continued)*

inventory so that its cost value is at least $195,000. Pursuant to the LOI, from Nov. 28, 2022, onward, the purchaser will be involved in all inventory purchases.

The parties agree that the letter of intent will be superseded by a definitive agreement. The closing of the transaction is anticipated to be on or before January 15, 2023, subject to the completion of all condition precedents.

On December 2, 2022, the Company closed the sale of all issued and outstanding shares in the capital of its wholly owned Saskatchewan wholesale-focused subsidiary, National Cannabis Distribution Inc., effective November 30, 2022, pursuant to an amended and restated share purchase and sale transaction with 1371511 B.C. Ltd. and Kiaro Brands Inc.

As a result of the transaction, Jatinder Dhaliwal resigned as the sole director of NCD, and Kelly Abbot was appointed the sole director, president and secretary/treasurer of NCD.

On December 16, 2022, further to the news releases dated September 15, 2022, and December 2, 2022, 1371511 B.C. Ltd. has exercised its right of first refusal to purchase interest in and to certain cannabis retail stores operated by Kiaro Brands Inc. located in the province of British Columbia.

Further to the exercise of the right of first refusal by the purchaser, KBI, a wholly owned subsidiary of the company, has entered into an asset acquisition agreement dated Dec. 13, 2022, with the purchaser in relation to the sale and disposition of certain books and records, assumed contracts, permits, inventory, fixed assets, leaseholds, and intangibles of the four retail cannabis stores located in British Columbia owned by KBI operated from: (i) 2816 St. Johns St., Port Moody, B.C., V3H 2C1; (ii) 1666 Graveley St., Vancouver, B.C., V5L 3A7; (iii) 475 Gorge Rd. East, Victoria, B.C., V8T 2W1; and (iv) 1650 Pandosy St., Kelowna, B.C., V1Y 1P7.

In consideration for the assets, the purchaser has agreed to pay to KBI $400,000 in cash on closing of the transaction. The purchaser has further agreed to pay to KBI an earnout payment of up to $750,000 on June 15, 2023. The earnout payment is payable as follows: (a) an aggregate amount of $750,000 is payable, if for the months of January, 2023, through the end of May, 2023, the earnings of KBI generated by the operation of the retail cannabis dispensary business currently carried on by KBI at the B.C. retail stores from the B.C. retail stores (without deduction of interest, taxes, depreciation or amortization) divided by sales generated by the operation of the business from the B.C. retail stores, determined in accordance with generally accepted accounting principles in effect from time to time in Canada, is equal to or greater than 10 per cent in aggregate, and the aggregate revenues of the business are equal to or greater than $4.5-million; or (b) an aggregate amount of $200,000 is payable, if, for the earnout period, the EBITDA (earnings before interest, taxes, depreciation and amortization) margin is equal to or greater than 10 per cent in aggregate, and the aggregate sales of the business are greater than $4-million and less than $4.5-million.

KBI further granted to the purchaser a right of first refusal to purchase all or any part of KBI's interest in and to KBI's remaining cannabis retail stores for a term of 36 months from the date of closing of the transaction.