C21 INVESTMENTS INC.

Consolidated Financial Statements

For the years ended **January 31, 2022 and 2021**

(Expressed in U.S. Dollars)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

bakertilly

Baker Tilly US, LLP
18500 Von Karman Ave; 10th Fl.
Irvine, CA 92612
United States of America

T: +1 (949) 222 2999
F: +1 (949) 222 2989

bakertilly.com

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
C21 Investments Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of C21 Investments Inc. (the “Company”) as of January 31, 2022 and 2021, the related consolidated statements of comprehensive income (loss), changes in shareholders’ equity, and cashflows for the years then ended, and related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2020.

Baker Tilly US, LLP

Irvine, California
August 15, 2022

C21 INVESTMENTS INC.
CONSOLIDATED BALANCE SHEETS
AS AT JANUARY 31, 2022 AND 2021
(Expressed in U.S. dollars)

	January 31, 2022	January 31, 2021
	$	$
ASSETS		
Current assets		
Cash	3,067,983	6,237,182
Receivables	210,423	116,017
Inventory	4,054,473	2,692,647
Prepaid expenses and deposits	773,450	778,037
Current portion of assets classified as held for sale	2,178,145	1,492,826
	10,284,474	11,316,709
Non-current assets		
Property and equipment	4,869,593	2,748,636
Right-of-use assets	8,875,884	9,337,248
Intangible assets	9,224,165	10,957,961
Goodwill	28,541,323	28,541,323
Security deposit	49,011	47,739
Deferred tax asset	9,024	556,514
Assets classified as held for sale	-	3,313,334
TOTAL ASSETS	61,853,474	66,819,464
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	2,508,869	2,680,996
Promissory note payable - current portion	6,080,000	6,080,000
Convertible promissory note - current portion	1,281,442	2,202,646
Income taxes payable	3,658,162	3,378,299
Lease liabilities - current portion	325,698	260,621
Current portion of liabilities classified as held for sale	874,379	628,171
	14,728,550	15,230,733
Non-current liabilities		
Lease liabilities	8,953,425	9,279,123
Deposit liability	100,000	-
Promissory note payable	2,026,667	8,106,667
Derivative liabilities	1,006,368	9,759,127
Reclamation obligation	55,272	55,008
Liabilities classified as held for sale	-	1,132,658
TOTAL LIABILITIES	26,870,282	43,563,316
SHAREHOLDERS' EQUITY		
Common stock, no par value; unlimited shares authorized; 120,047,814 and 117,057,860 shares issued and outstanding as at January 31, 2022 and 2021, respectively	105,236,351	103,636,830
Commitment to issue shares	628,141	649,928
Accumulated other comprehensive loss	(2,370,967)	(1,604,126)
Deficit	(68,510,333)	(79,426,484)
TOTAL SHAREHOLDERS' EQUITY	34,983,192	23,256,148
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	61,853,474	66,819,464

Approved on behalf of the Board:

/s/ Bruce Macdonald, Director   /s/ Michael Kidd, Director

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C21 INVESTMENTS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021
(Expressed in U.S. dollars)

	January 31, 2022	January 31, 2021
	$	$
Revenue	32,982,976	33,466,063
Cost of sales	14,172,991	15,418,717
Gross Profit	18,809,985	18,047,346
Selling, general and administrative expense	9,055,174	8,807,399
Income from operations	9,754,811	9,239,947
Interest expense	(1,077,068)	(3,931,570)
Accretion expense	(230,462)	(1,220,896)
Other income	108,470	35,275
Gain (loss) on change in fair value of derivative liabilities	8,576,290	(5,756,195)
Net income (loss) from continuing operations before income taxes	17,132,041	(1,633,439)
Income tax expense	(3,973,246)	(2,968,133)
Net income (loss) from continuing operations after income taxes	13,158,795	(4,601,572)
Net loss from discontinued operations after income taxes	(2,242,644)	(3,228,056)
NET INCOME (LOSS)	10,916,151	(7,829,628)
Other comprehensive loss		
Cumulative translation adjustment	(766,841)	(613,609)
COMPREHENSIVE INCOME (LOSS)	10,149,310	(8,443,237)
Basic income (loss) per share from continuing operations	0.11	(0.04)
Diluted income (loss) per share from continuing operations	0.11	(0.04)
Basic and diluted loss per share from discontinued operations	(0.02)	(0.03)
Basic income (loss) per share	0.09	(0.07)
Diluted income (loss) per share	0.09	(0.07)
Weighted average number of common shares outstanding - basic	118,308,584	104,841,540
Weighted average number of common shares outstanding - diluted	121,141,677	104,841,540

C21 INVESTMENTS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021
(Expressed in U.S. dollars)

	Number of shares	Common stock	Commitment to issue shares	Accumulated other comprehensive loss	Deficit	Total shareholders' equity
		$	$	$	$	$
Balance at January 31, 2020	**89,388,639**	**85,096,509**	**1,100,881**	**(990,517)**	**(71,596,856)**	**13,610,017**
Purchase of Phantom real estate	7,132,042	2,582,903	-	-	-	2,582,903
Amendment of Megawood consideration	95,849	38,415	-	-	-	38,415
Shares issued on exercise of options	200,000	98,950	-	-	-	98,950
Shares issued on exercise of convertible debentures	19,764,694	12,758,473	-	-	-	12,758,473
Commitment to issue shares on purchase of Swell Companies	456,862	429,582	(429,582)	-	-	-
Payment of EFF share payment note	19,774	21,371	(21,371)	-	-	-
Standby warrants issued	-	2,116,192	-	-	-	2,116,192
Share-based compensation	-	494,435	-	-	-	494,435
Net loss and comprehensive loss for the year	-	-	-	(613,609)	(7,829,628)	(8,443,237)
Balance at January 31, 2021	**117,057,860**	**103,636,830**	**649,928**	**(1,604,126)**	**(79,426,484)**	**23,256,148**
Commitment to issue shares on purchase of EFF	19,774	21,787	(21,787)	-	-	-
Shares issued on exercise of PF warrants	456,100	533,326	-	-	-	533,326
Shares issued on exercise of guaranteed warrants	1,214,080	-	-	-	-	-
Shares issued - Settlement of Earn out shares	1,300,000	677,939	-	-	-	677,939
Share-based compensation	-	366,469	-	-	-	366,469
Net income and other comprehensive loss for the year	-	-	-	(766,841)	10,916,151	10,149,310
Balance at January 31, 2022	**120,047,814**	**105,236,351**	**628,141**	**(2,370,967)**	**(68,510,333)**	**34,983,192**

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

C21 INVESTMENTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 31, 2022 AND 2021
(Expressed in U.S. dollars)

	January 31, 2022	January 31, 2021
	$	$
OPERATING ACTIVITIES		
Net income (loss) from continuing operations	13,158,795	(4,601,572)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,818,325	2,270,526
Share-based compensation	366,469	494,435
Interest expense	83,058	3,573,101
Accretion expense	230,462	1,220,896
Deferred income tax	589,914	602,087
Foreign exchange gain	500,462	284,401
(Gain) loss on change in fair value of derivative liabilities	(8,576,290)	5,756,195
Gain on disposal of assets	-	(135,564)
Changes in operating assets and liabilities		
Inventory	(1,361,826)	1,700,987
Prepaid expenses and deposits	4,587	(368,678)
Receivables	(94,406)	154,900
Assets classified as held for sale	748,404	-
Accounts payable and accrued liabilities	1,568,932	(1,431,130)
Income tax payable	279,863	(336,367)
Lease liabilities	(72,734)	(701,115)
Liabilities classified as held for sale	(805,406)	-
Cash provided by operating activities of continuing operations	8,438,609	8,483,102
Cash (used in) provided by operating activities of discontinued operations	(1,602,478)	241,753
INVESTING ACTIVITIES		
Purchases of property and equipment	(2,562,304)	(227,777)
Payment of Megawood consideration payable	-	(130,000)
Payment of Swell consideration payable	-	(846,256)
Cash used in investing activities of continuing operations	(2,562,304)	(1,204,033)
Cash provided by investing activities of discontinued operations	1,168,349	100,000
FINANCING ACTIVITIES		
Principal repayments on promissory note payable	(6,080,000)	(7,013,333)
Repayment of convertible promissory notes	(1,210,000)	-
Cash proceeds from warrants	533,326	-
Cash proceeds from options	-	98,950
Issuance of convertible debentures on exercise of warrants	-	5,688,442
Interest paid in cash	(1,082,500)	(2,500,669)
Lease payments received	100,000	-
Cash used in financing activities of continuing operations	(7,739,174)	(3,726,610)
Cash used in financing activities of discontinued operations	(105,360)	(119,914)
Effect of foreign exchange on cash	(766,841)	(613,609)
(Decrease) increase in cash during the year	(3,169,199)	3,160,689
Cash, beginning of year	6,237,182	3,076,493
Cash, end of year	3,067,983	6,237,182
Supplemental disclosure of cash flow information		
Interest paid in cash	2,322,855	2,515,446
Income taxes paid in cash	3,145,893	2,832,676
Non-cash investing activities		
Right-of-use asset additions resulting from lease renewals	-	7,236,663
Non-cash financing activities		
Common shares issued on exercise of convertible debentures	-	12,758,473
Common shares issued in settlement of Phantom Farms earn out shares	677,939	-
Common shares issued as partial settlement of commitment to issue shares	21,787	450,953
Common shares issued to complete purchase of land	-	2,582,903
Common shares issued as partial repayment of promissory note	-	38,415

1. NATURE OF OPERATIONS

C21 Investments Inc. (the "Company" or "C21") was incorporated January 15, 1987, under the Company Act of British Columbia. The Company is a publicly traded company with its registered office is 1900-885 West Georgia Street, Vancouver, BC, V6C 3H4.

Pursuant to a change of business announced on January 29, 2018 to the Cannabis industry, the Company commenced acquiring and operating revenue-producing cannabis operations in the USA.

On June 15, 2018, the Company's common shares were delisted from the TSX Venture Exchange ("TSX-V") at the Company's request and on June 18, 2018 the Company commenced trading on the Canadian Securities Exchange ("CSE"), completed its change of business to the cannabis industry and commenced trading under the symbol CXXI. The Company registered its common shares in the United States and on May 6, 2019, its shares were cleared by the Financial Industry Regulatory Authority for trading on the OTC Markets platform under the U.S. trading symbol CXXIF. On September 28, 2020, the Company began trading on the OTCQB® Venture Market.

For the year ended January 31, 2021, the Company operated in two segments: recreational cannabis in Oregon, USA and recreational and medical cannabis in Nevada, USA (note 17). During the year ended January 31, 2022, the Company made the strategic decision to exit operations in Oregon. The comparative results of operations have been re-stated to present the operating results of the Oregon segment as discontinued operations. The Nevada segment remains engaged in the cultivation of and manufacturing of cannabis flower products, vape products and extract products for wholesale and retail sales.

At January 31, 2022, the Company had cash of $3,067,983, a working capital deficit of $4,444,076, and an accumulated deficit of $68,510,333. However, for the year ended January 31, 2022, the Company generated net income and positive cash flows from operations.

Management has taken several actions to ensure that the Company will continue as a going concern through January 31, 2023, including the closing of its operations in Oregon (note 4), selling the assets in Oregon, reducing headcount, and reducing discretionary expenditures. The Company is seeking additional financing in the form of debt which could consolidate existing debt on its balance sheet on more favorable terms. Management believes that these actions will enable the Company to continue as a going concern through August 15, 2023, one year from the date these consolidated financial statements were issued.

In the United States, 36 states, the District of Columbia, and four out of five U.S. territories allow the use of medical cannabis. The recreational adult-use of cannabis is legalized in 17 states, including Alaska, Arizona, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Montana, Nevada, New Jersey, New Mexico, New York, Oregon, Vermont, Virginia, Washington, and the District of Columbia. At the federal level, however, cannabis currently remains a Schedule I controlled substance under the Federal Controlled Substances Act of 1970. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, even in those states in which marijuana is legalized under state law, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level. There remains uncertainty about the US federal government's position on cannabis with respect to cannabis-legal status. A change in its enforcement policies could impact the ability of the Company to continue as a going concern.

2. BASIS OF PREPARATION

BASIS OF PRESENTATION

These consolidated financial statements as at and for the years ended January 31, 2022 and 2021 ("consolidated financial statements") are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments classified as fair value through profit or loss.

FUNCTIONAL AND REPORTING CURRENCY

The functional currency of C21 Investments Inc. is Canadian dollars, and the functional currency of the Company's subsidiaries is U.S. dollars. C21 has determined that the U.S. dollar is the most relevant and appropriate reporting currency as the Company's operations are conducted in U.S. dollars and its financial results are prepared and reviewed internally by management in U.S. dollars. The consolidated financial statements are presented in U.S. dollars unless otherwise noted.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the accounts of the Company and all the entities in which the Company has a controlling voting interest and is deemed to be the primary beneficiary. All consolidated entities were under common control during the entirety of the periods for which their respective results of operations were included in the consolidated statements (i.e. from the date of acquisition). All intercompany balances and transactions are eliminated upon consolidation.

The following are the Company's subsidiaries that are included in these consolidated financial statements as at and for the year ended January 31, 2022:

Name of Subsidiary	Country of Incorporation	Percentage Ownership	Functional Currency	Principal Activity
320204 US Holdings Corp.	USA	100%	USD	Holding Company
320204 Oregon Holdings Corp.	USA	100%	USD	Holding Company
320204 Nevada Holdings Corp.	USA	100%	USD	Holding Company
320204 Re Holdings, LLC	USA	100%	USD	Holding Company
Eco Firma Farms LLC	USA	100%	USD	Cannabis producer
Silver State Cultivation LLC	USA	100%	USD	Cannabis producer
Silver State Relief LLC	USA	100%	USD	Cannabis retailer
Swell Companies LTD	USA	100%	USD	Cannabis processor, distributor
Megawood Enterprises Inc.	USA	100%	USD	Cannabis retailer
Phantom Venture Group, LLC	USA	100%	USD	Holding Company
Phantom Brands, LLC	USA	100%	USD	Holding Company
Phantom Distribution, LLC	USA	100%	USD	Cannabis distributor
63353 Bend, LLC	USA	100%	USD	Cannabis producer
20727-4 Bend, LLC	USA	100%	USD	Cannabis processor
4964 BFH, LLC	USA	100%	USD	Cannabis producer
Workforce Concepts 21, Inc.	USA	100%	USD	Payroll and benefits services

3. SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements in conformity with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates and judgments.

Areas requiring a significant degree of estimation and judgment relate to the determination of fair values of assets acquired and liabilities assumed in business combinations, impairment of long-lived assets and inventory, fair value measurements, useful lives, depreciation and amortization of property, equipment and intangible assets, the recoverability and measurement of deferred tax assets and liabilities, share-based compensation, and fair value of derivative liabilities.

CASH

Cash held in financial institutions and cash held at retail locations, have carrying values that approximate fair value.

FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into U.S. dollars at exchange rates in effect on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All differences are recorded in the consolidated statements of income and comprehensive income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Assets and liabilities of foreign operations are translated into U.S. dollars at year-end exchange rates and any revenue and expenses are translated at the average exchange rate for the year. The resulting exchange differences are recognized in other comprehensive income (loss).

INVENTORY

Inventory consists of raw materials, consumables and packaging supplies used in the process to prepare inventory for sale; work in process consisting of pre-harvested cannabis plants, by-products to be extracted, oils and terpenes; and finished goods.

Inventory is valued at the lower of cost and net realizable value, with cost determined using the weighted average cost method. Net realizable value is calculated as the estimated selling price in the ordinary course of business, less any estimated costs to complete and sell the goods. Costs are capitalized to inventory, until substantially ready for sale. Costs include direct and indirect labor, raw materials, consumables, packaging supplies, utilities, facility costs, quality and testing costs, production related depreciation and other overhead costs. The Company records inventory reserves for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, and the historical and professional experience of management. The Company classifies cannabis inventory as a current asset, although, due to the duration of the cultivation, drying, and conversion process, certain inventory items may not be realized in cost of sales within one year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT

Property and equipment is measured at cost less accumulated depreciation and losses on impairment.

Depreciation is provided on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Leasehold improvements	shorter of the life of the improvement or the remaining life of the lease
Furniture & fixtures	5 years
Computer equipment	3 years
Machinery & equipment	2-7 years

INTANGIBLE ASSETS

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization of intangible assets begins when the asset becomes available for use. Brands, licenses, and customer relationships are amortized over 10 years, which reflect the estimated useful lives of the intangible assets.

GOODWILL AND INDEFINITE LIVED INTANGIBLE ASSETS

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Goodwill represents the excess of the purchase price paid for the acquisition of subsidiaries over the fair value of the net intangible and tangible assets acquired. Following the initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. The Company's goodwill is part of the Nevada reporting unit.

Goodwill is tested annually for any impairment, or more frequently in the case that events or circumstances indicate that the carrying amount of a reporting unit may not be recoverable. The Company may elect to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If factors indicate this is the case, then a quantitative test is performed and an impairment is recorded for any excess carrying value above the reporting unit's fair value, not to exceed the amount of goodwill.

For the years ended January 31, 2022 and 2021, the recoverable amount of goodwill allocated to the Nevada reporting unit exceeded its carrying amount and as such, no impairment was noted.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets include property and equipment, right-of-use assets, and intangible assets with finite useful lives.

At the end of each fiscal year, the Company reviews the intangible assets' estimated useful lives and amortization methods, with the effect of any changes in estimates accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-lived assets are reviewed for indicators of impairment at each statement of balance sheet date or whenever events or changes in circumstances indicate that a potential impairment has occurred. The Company groups assets at the lowest level for which cash flows are separately identifiable, referred to as an asset group. When indicators of potential impairment are present the Company prepares a projected undiscounted cash flow analysis to determine the recoverable amount for the respective asset or asset group. An impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount and is recorded as in profit or loss equal to the amount by which the carrying amount exceeds the fair value.

ASSETS AND LIABILITIES HELD FOR SALE

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. The comparative consolidated balance sheet is re-presented to classify assets as held for sale in the period that the respective assets are classified as held for sale.

BUSINESS COMBINATIONS

Acquisitions are accounted for in accordance with ASC 805 - *Business Combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date.

The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired is recorded as goodwill. Any excess of the fair value of the net assets acquired over the consideration, is a gain on business acquisition and would be recognized as a gain in the consolidated statement of loss and comprehensive loss.

CONVERTIBLE INSTRUMENTS

In August 2020, the Financial Accounting Standards Board ("FASB") issued *Accounting standards update 2020-06—debt—debt with conversion and other options (subtopic 470-20) and derivatives and hedging—contracts in entity's own equity (subtopic 815-40): accounting for convertible instruments and contracts in an entity's own equity*, an update to simplify the accounting for convertible debt and other equity-linked instruments. The new guidance simplifies the accounting for convertible instruments by eliminating the cash conversion and beneficial conversion feature models used to separately account for embedded conversion features as a component of equity. Instead, the Company will account for the convertible debt as a single unit of account, unless the conversion feature requires bifurcation and recognition as a derivative. Additionally, the guidance requires the Company to use the if-converted method for all convertible instruments in the diluted earnings per share calculation and include the effect of potential share settlement for instruments that may be settled in cash or shares. The Company early adopted this new guidance using the full retrospective method as of February 1, 2020. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements and there was no impact to the number of potentially dilutive shares in each of the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

In February 2016, the FASB issued *ASU 2016-02, Leases* ("ASC 842"), a standard that requires lessees to increase transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the balance sheet. The requirements of this standard include a significant increase in required disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The FASB has issued several amendments and practical expedients to the standard, including clarifying guidance, transition relief on comparative reporting at adoption, a practical expedient, which allows lessees to elect as an accounting policy not to apply the provisions of ASC 842 to short term leases, and codification improvements to clarify that lessees and lessors are exempt from certain interim disclosure requirement associated with adopting the new leases standard. The standard was adopted by the Company beginning February 1, 2020 and the standard was adopted using the modified retrospective transition approach, which allows the Company to recognize a cumulative effect adjustment to the opening balance of accumulated deficit in the period of adoption rather than restate comparative prior year periods. The cumulative effect adjustment to the opening balance of accumulated deficit was $nil. The Company has elected not to recognize right-of-use assets and liabilities for short-term leases that have a term of 12 months or less.

Upon commencement of a contract containing a lease, the Company classifies leases other than short-term leases as either an operating lease or a finance lease according to the criteria prescribed by ASC 842. The lease classification is reassessed only when: (a) the contract is modified and the modification is not accounted for as a separate contract, and (b) there is a change in the lease term or the assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset.

For both finance leases and operating leases, right-of-use assets and lease liabilities are initially measured as the present value of future lease payments and initial direct costs discounted at the interest rate implicit in the lease, or if that rate is not readily determinable, the Company's incremental borrowing rate. Subsequent measurement of lease liabilities classified as finance leases is at amortized cost using the effective interest rate method. Subsequent measurement of right-of-use assets classified as finance leases is at carrying amount less accumulated amortization, where amortization is recorded straight-line over the lease term. Subsequent measurement of lease liabilities classified as operating leases is at the present value of the unpaid lease payments discounted at the discount rate for the lease established at the commencement date. Subsequent measurement of right-of-use assets classified as operating leases is carrying amount less accumulated amortization where amortization is calculated as the difference between straight-line lease cost for the period, including amortization of initial direct costs, and the periodic accretion of the lease liability.

FINANCIAL INSTRUMENTS

Financial instruments are contracts that give rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial instruments are recorded initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent measurement depends on how the financial instrument has been classified and may be at fair value or amortized cost. For financial instruments subsequently measured at fair value, the Company calculates the estimated fair value of financial instruments using quoted market prices whenever available. When quoted market prices are not available, the Company uses standard pricing models including the Black-Scholes option pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs that are not based on observable market data.

There have been no transfers between fair value hierarchy levels during the years ended January 31, 2022 and 2021.

The Company's measures the derivative liability at fair value using Level 3 inputs.

The Company's cash, receivables, accounts payable and accrued liabilities, and income taxes payable are recorded at cost. The carrying values of these financial instruments approximate their fair value due to their short-term maturities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Financial instruments subsequently measured at amortized cost include promissory note payable, and reclamation obligation.

SHARE-BASED COMPENSATION

The Company measures equity settled share-based payments based on their fair value at their grant date and recognizes share-based compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Consideration paid to the Company on the exercise of stock options is recorded as common stock.

INCOME TAXES

The Company uses the asset and liability method to account for income taxes. Deferred income tax assets and liabilities are determined based on enacted tax rates and laws for the years in which the differences are expected to reverse.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to the cost of producing the products or cost of production.

The Company recognizes uncertain income tax positions at the largest amount that is more-likely-than-not to be sustained upon examination by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Recognition or measurement is reflected in the period in which the likelihood changes. Any interest and penalties related to unrecognized tax liabilities are presented within income tax expense in the consolidated statements of comprehensive income (loss).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS (LOSS) PER SHARE

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated using the weighted average number of shares outstanding during the respective years. Diluted loss per share is computed by dividing net loss by the weighted average shares outstanding adjusted for additional shares from the assumed exercise of stock options, restricted share units, or warrants, if dilutive.

The number of additional shares is calculated by assuming the outstanding dilutive convertible instruments, options, and warrants are exercised and that the assumed proceeds are used to acquire common shares at the average market price during the year. Diluted loss per share figures for the years presented are equal to those of basic loss per share for the years since the effects of convertible instruments, stock options and warrants are anti-dilutive.

REVENUE RECOGNITION

Revenue is recognized by the Company in accordance with ASC 606. Through application of the standard, the Company recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In order to recognize revenue under ASC 606, the Company applies the following five steps:

1. Identify a customer along with a corresponding contract
2. Identify the performance obligation(s) in the contract to transfer goods or provide distinct services to a customer
3. Determine the transaction price that the Company expects to be entitled to in exchange for transferring promised goods or services to a customer
4. Allocate the transaction price to the performance obligation(s) in the contract
5. Recognize revenue when or as the Company satisfies the performance obligation(s) in the contract

The Company's contracts with customers for the sale of dried cannabis and other products derived from cannabis consist of one performance obligation, being the transfer of control of the goods to the customer at the point of sale. The Company transfers control and satisfies its performance obligation when collection has taken place, compliant documentation has been signed, and the product was accepted by the buyer. The Company does not have performance obligations subsequent to delivery on the sale of goods to customers and revenues from sale of goods are recognized at a "point in time", which is upon passing of control to the customer.

Transaction costs associated with a business combination, (i.e., other than those associated with the issuance of debt or equity), are expensed as incurred as a line item in the consolidated statement of loss and comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLAMATION OBLIGATION

The Company recognizes the fair value of a legal or constructive liability for a reclamation obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Changes in the liability for a reclamation obligation due to the passage of time will be recognized within accretion expense. The amount will be recognized as an increase in the liability and an accretion expense in the consolidated statements comprehensive income (loss) . Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements, other than those below, issued by the FASB, the American Institute of Certified Public Accountants("AICPA") and the U.S. Securities and Exchange Commission ("SEC") did not or are not believed by management to have a material effect on the Company's present or future financial statements.

Debt

In August 2020, the FASB issued *ASU 2020-06, Debt — Debt with Conversion and Other Options* ("ASU 2020-06"), *(Subtopic 470-20) and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40)*. ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity. The FASB reduced the number of accounting models for convertible debt and convertible preferred stock instruments and made certain disclosure amendments to improve the information provided to users. In addition, the FASB amended the derivative guidance for the own stock scope exception and certain aspects of the earnings-per-share guidance. The amendments are effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted for after December 15, 2020. The Company early adopted this new guidance using the full retrospective method as of February 1, 2020.

Leases

In February 2016, the FASB issued new guidance on the recognition and measurement of leases, ASC 842 - Leases. Under this guidance, a lessee recognizes assets and liabilities on its balance sheet for most leases. Lease expense continues to be consistent with previous guidance. Additionally, this guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leasing arrangements. The Company adopted this guidance effective February 1, 2020 using the modified retrospective transition method and comparative year ended January 31, 2021.

The adoption of this guidance resulted in the recognition of operating lease right-of-use assets of $5,001,360, and $5,001,360 of lease liabilities, with a $nil impact on deficit. The transition to ASC 842 did not have a material impact on the Company's results of operations or liquidity. When measuring lease liabilities, the Company used its incremental borrowing rate, estimated at 10%.

Revenue

In May 2014, the FASB issued *ASU 2014-09, Revenue from Contracts with Customers* ("ASU 2014-09"), which provides a single comprehensive model for accounting for revenue from contracts with customers and supersedes nearly all previously existing revenue recognition guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted the standard as of February 1, 2020. There was no impact of adopting ASU 2014-09 on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments - Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments. ASU 2016-13 requires the measurement of current expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. Adoption of ASU 2016-13 will require financial institutions and other organizations to use forward-looking information to better formulate their credit loss estimates. In addition, the ASU amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration.

This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company adopted ASU 2016-13 on February 1, 2020 and adoption did not have a material impact on the Company's consolidated financial statements.

Fair value measurement

In August 2018, the FASB issued *ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820)*. ASU 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. ASU 2018-13 is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Company adopted ASU 2018-13 on February 1, 2020 and the adoption did not have a material impact on the Company's consolidated financial statements.

Income taxes

In December 2019, the FASB issued *ASU 2019-12, Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020 and was adopted on February 1, 2021 and the adoption did not have a material impact on the Company's consolidated financial statements.

4. DISCONTINUED OPERATIONS

In January 2022, the Company entered into to a lease-to-own arrangement with a lessee for certain licenses, land and equipment in Oregon, USA, representing its outdoor growing operation. The lease-to-own arrangement concludes in January 2027 with total undiscounted payments over the term amounting to $2,514,805. The Company determined that the arrangement should be accounted for as a sales-type lease and concluded that it is not probable that all required payments will be made such that title will transfer at the end of the term. As such, in accordance with ASC 842, the land and equipment have not been derecognized and payments received will be recorded as a deposit liability until such time that collectability becomes probable. As at January 31, 2022, $100,000 has been received under the arrangement and has been recorded as a deposit liability.

As a result of non-profitable operations in the Oregon reporting unit, the Company began to wind down operations in Oregon beginning in the year ended January 31, 2021. At January 31, 2021, the Company classified the assets and liabilities in Swell and Megawood as held for sale and completed the sale of these assets in April 2021. By January 31, 2022, the Company made the decision to cease all growing, manufacturing, and processing activities in Bend, Oregon. As the Oregon reporting unit comprises the assets of multiple components in distinct geographic locations, management anticipates completing the sale on a piecemeal basis. Management is engaged in an active program to seek buyers for the major classes of assets and liabilities in Oregon in order to complete a sale in the next twelve months.

(Expressed in U.S. dollars, except as noted)

4. DISCONTINUED OPERATIONS (CONTINUED)

Remaining inventory on hand at January 31, 2022 had an estimated aggregate net realizable value of approximately $363,391. For the year ended January 31, 2022, net loss from discontinued operations included impairment of inventory in Oregon in the amount of $1,093,308 (2021 - $1,384,922) in order to report inventory at its net realizable value. Subsequent to January 31, 2022, the Company sold the remaining Oregon inventory on July 20, 2022.

Prepaid expenses classified as held for sale primarily relates to the renewal of licenses that may be transferred in the event of a sale. Otherwise, prepaid expenses will be expensed within loss from discontinued operations over the next twelve months.

For the year ended January 31, 2022, the Company recorded a provision for expected credit losses on previously recorded management fees receivable of $111,616 (2021 - $nil).

Long-term debt consists of vehicle loans and a building mortgage. The mortgage began on February 1, 2015 and matures on January 1, 2035 (20 years). The mortgage bears interest at a fixed rate of 4.5% with payments made monthly. The equipment and vehicle loans consist of three loans with maturity dates ranging from June 1, 2021 through May 15, 2023 and interest rates ranging from 5.59% to 19.9% with payments made monthly.

The following table summarizes the major classes of assets and liabilities of the discontinued Oregon operation that have been classified as held-for-sale in the consolidated balance sheets:

	January 31, 2022	January 31, 2021
	$	$
Carrying amounts of the major classes of assets included in discontinued operations:		
Receivables	**64,456**	93,855
Inventory	**363,391**	1,296,009
Prepaid expenses and deposits	**111,617**	153,904
Deferred tax asset	**152,177**	109,753
Property and equipment	**1,139,517**	1,895,572
Right-of-use assets	**346,987**	1,074,930
Intangible assets	**-**	182,137
Total assets classified as held for sale	**2,178,145**	4,806,160
Current portion of assets classified as held for sale	**(2,178,145)**	(1,492,826)
Non-current portion of assets classified as held for sale	**-**	3,313,334
Carrying amounts of the major classes of liabilities included in discontinued operations:		
Lease liabilities	**412,093**	1,217,499
Long-term debt	**462,286**	543,330
Total liabilities classified as held for sale	**874,379**	1,760,829
Current portion of liabilities classified as held for sale	**(874,379)**	(628,171)
Non-current portion of liabilities classified as held for sale	**-**	1,132,658

In connection with the wind-down of operations, the Company concluded that the customer relationship intangible asset held in the Oregon reporting unit had no value and recognized $363,510 of impairment (2021 - $nil). Other income for the year ended January 31, 2022 contains a gain on the sale of assets that were held for sale at January 31, 2021 of $324,694, and other income of $79,274, offset by interest expense of $8,227. Other expenses for the year ended January 31, 2021 included interest expense of $183,404, acquisition re-organization costs of $1,204,740, and impairment on capital assets of $116,881, offset by other income of $231,212.

(Expressed in U.S. dollars, except as noted)

4. DISCONTINUED OPERATIONS (CONTINUED)

The following table provides the major classes of line items constituting pre-tax loss from discontinued operations:

	January 31, 2022	January 31, 2021
	$	$
Revenue	1,128,403	2,661,223
Cost of sales	1,602,257	2,393,417
Gross margin	(473,854)	267,806
Expenses (income)		
General and administration	361,028	630,691
Provision for expected credit losses	111,616	-
Sales, marketing, and promotion	68,941	27,933
Operating lease cost	1,233	56,650
Depreciation and amortization	207,319	378,113
Impairment of inventory	1,093,308	1,384,922
Impairment of intangible asset	363,510	-
Other (income) expenses	(395,741)	1,273,813
Net loss from discontinued operations before income taxes	(2,285,068)	(3,484,316)
Income tax expense	42,424	256,260
Net loss from discontinued operations after income taxes	(2,242,644)	(3,228,056)

The following table summarizes the cash flows from discontinued operations:

	January 31, 2022	January 31, 2021
	$	$
Net cash (used in) provided by operating activities of discontinued operations	(1,602,478)	241,753
Net cash provided by investing activities of discontinued operations	1,168,349	100,000
Net cash used in financing activities of discontinued operations	(105,360)	(119,914)

5. SECURITY DEPOSIT

The Company has a security deposit with the Alberta Energy Regulator ("AER") under the AER's Liability Management programs to cover potential liabilities relating to its wells. The required security deposit with the AER is determined based on a monthly licensee management rating assessment. At January 31, 2022, the security deposit had a balance of $49,011 (January 31, 2021 - $47,739).

6. RECEIVABLES

	January 31, 2022	January 31, 2021
	$	$
Sales taxes receivable	11,945	14,809
Trade receivables, net	198,478	101,208
	210,423	116,017

At January 31, 2022, trade receivables are presented net of a provision for expected credit losses of $nil (January 31, 2021 - $nil).

(Expressed in U.S. dollars, except as noted)

7. INVENTORY

	January 31, 2022	January 31, 2021
	$	$
Finished goods	**1,848,392**	1,946,638
Work in process	**2,029,133**	582,655
Raw materials	**176,948**	163,354
	4,054,473	2,692,647

8. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

PROPERTY AND EQUIPMENT

The following table summarizes the Company's property and equipment:

	January 31, 2022	January 31, 2021
	$	$
Land	**1,330,000**	1,330,000
Leasehold improvements	**1,758,229**	244,472
Furniture & fixtures	**460,890**	376,207
Computer equipment	**46,484**	94,846
Machinery & equipment	**2,305,217**	1,261,340
	5,900,820	3,306,865
Less: accumulated depreciation and amortization	**(1,031,227)**	(558,229)
	4,869,593	2,748,636

Total depreciation and amortization expense for the year ended January 31, 2022 was $472,998 (year ended January 31, 2021 - $630,818). Of the total expense, $260,006 was allocated to inventory (2021 - $135,950).

At January 31, 2022, the Company reclassified buildings with a cost of $1,370,212 and accumulated depreciation of $230,695 to assets classified as held for sale. The prior period comparative amounts of cost of $1,370,212 and accumulated depreciation of $202,072 were also re-classified.

During the year ended January 31, 2021, the Company recorded a loss of $116,881 related to the disposal of various items of leasehold improvements, furniture and fixtures, computer equipment and machinery and equipment related to the Oregon operations. The cost of the property and equipment disposed of was $318,314 and accumulated depreciation was $201,433. There was $nil gross proceeds and the loss has been recorded as other expenses within net loss from discontinued operations.

During the year ended January 31, 2021, the Company transferred lights and equipment with a cost of $324,371 and accumulated depreciation of $128,319 between operating units resulting in a classification change from leasehold improvements to machinery and equipment.

At January 31, 2021, the Company reclassified property and equipment with a cost of $1,479,014 and accumulated depreciation of $751,582 to assets classified as to held for sale. The assets consisted primarily of redundant processing and extraction equipment as well as leasehold improvements and fixtures in a right-of-use asset. Management estimated the fair value less costs to sell exceeds the carrying value and therefore the assets are measured at their carrying values.

(Expressed in U.S. dollars, except as noted)

8. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTINUED)

RIGHT-OF-USE ASSETS

The Company's right-of-use assets result from its operating leases (note 11) and consist of land and buildings used in the cultivation, processing, and warehousing of its products.

During the year ended January 31, 2021, the Company amended lease agreements on three leases to extend their term. This resulted in right-of-use asset additions of $7,236,663.

For the year ended January 31, 2022, operating lease costs include right-of-use asset amortization of $461,364 (2021 - $800,269). Of this, $265,788 was allocated to inventory (2021 - $450,413).

At January 31, 2021, the Company reclassified right-of-use assets with a carrying amount of $583,257 to held for sale following an assessment that the Swell and Pure Green properties were redundant to the Company's operation. In addition, the Company reclassified the associated lease liabilities of $628,171 to be classified as held for sale. Management estimated the fair value less costs to sell exceeds the carrying value and therefore the assets are measured at their carrying values.

At January 31, 2022, the Company reclassified right-of-use assets with a carrying amount of $346,987 (2021 - $491,672) to held for sale. Management estimated the fair value less costs to sell exceeds the carrying value and therefore the assets are measured at their carrying values.

9. INTANGIBLE ASSETS AND GOODWILL

INTANGIBLE ASSETS

The following table summarizes the Company's intangible assets:

	January 31, 2022	January 31, 2021
	$	$
Licenses	**12,141,476**	12,141,476
Brands	**868,982**	868,982
Customer relationships	**1,758,553**	2,122,063
	14,769,011	15,132,521
Less: accumulated amortization	**(5,544,846)**	(4,174,560)
	9,224,165	10,957,961

Total amortization expense from intangible assets for the year ended January 31, 2022 was $1,370,286 (2021 - $1,464,528).

During the year ended January 31, 2022, the Company recognized impairment charges of $363,510 on customer relationships allocated to the Oregon reporting unit (note 4).

During the year ended January 31, 2021, the Company sold a brand for $100,000. At the time of the sale, the brand had a carrying amount of $100,000 comprised of cost of $117,737 and accumulated amortization of $17,737.

(Expressed in U.S. dollars, except as noted)

9. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

At January 31, 2021, the Company reclassified intangible assets with a cost of $400,009 and accumulated amortization of $217,872 to held for sale. The intangible assets classified as held for sale consist of licenses, customer lists, and startup costs associated with a right-of-use asset that has also been classified as held for sale. Management estimated the fair value less costs to sell exceeds the carrying value and therefore the assets are measured at their carrying values.

GOODWILL

As at January 31, 2022, the Company had goodwill of $28,541,323 (2021 - $28,541,323) which was allocated to the Nevada reporting unit.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table summarizes the Company's accounts payable and accrued liabilities:

	January 31, 2022	January 31, 2021
	$	$
Accounts payable	**1,402,546**	1,382,519
Accrued liabilities	**1,040,914**	1,183,259
Interest payable	**65,409**	115,218
	2,508,869	2,680,996

11. LEASES

On February 1, 2020 the Company adopted ASC 842 using the modified retrospective transition approach which requires the recognition of lease assets and liabilities for operating and finance leases. Beginning on February 1, 2020, the Company's financial statements are presented in accordance with the revised policy.

The Company's accounting policy is described in note 3. As a result of the adoption of ASC 842, the Company recorded operating right-of-use assets of $5,001,360, and operating lease liabilities of $5,001,360.

The Company's leases consist of land and buildings used in the cultivation, processing, and warehousing of its products. All leases were found to be operating leases in accordance with ASC 842.

The following table presents the Company's active leases and total lease term under contract:

Entity Name/Lessee	Asset	Useful life (years)	Type
Swell Companies, LTD	Land/Building	5	Operating lease
Silver State Cultivation LLC	Land/Building	12	Operating lease
Silver State Relief LLC (Sparks)	Land/Building	12	Operating lease
Silver State Relief LLC (Fernley)	Land/Building	12	Operating lease
Megawood Enterprises Inc.	Land/Building	5	Operating lease
Phantom Distribution, LLC	Land/Building	5	Operating lease
63353 Bend, LLC	Land/Building	5	Operating lease
20727-4 Bend, LLC	Land/Building	5	Operating lease
4964 BFH, LLC	Land/Building	5	Operating lease

For the years ended January 31, 2022 and 2021, the Company incurred operating lease costs of $1,403,743 and $1,249,422, respectively. Of these amounts, $812,368 and $700,185, were allocated to inventory, respectively.

(Expressed in U.S. dollars, except as noted)

11. LEASES (CONTINUED)

The following table displays the weighted average discount rate used in calculating lease liabilities and weighted average remaining lease term:

	January 31, 2022	January 31, 2021
Weighted average discount rate	10%	10%
Weighted average remaining lease term (years)	10.46	11.32

The maturity of the contractual undiscounted lease liabilities of the Company's operating leases as of January 31, 2022 is as follows:

Year ending January,	$
2023	1,239,090
2024	1,276,263
2025	1,314,551
2026	1,353,987
2027	1,394,607
Thereafter	9,148,938
Total undiscounted lease liabilities	15,727,436
Interest on lease liabilities	(6,448,313)
Total present value of minimum lease payments	9,279,123
Current portion of lease liability	325,698
Lease liability	**8,953,425**

As at January 31, 2022, liabilities classified as held for sale includes lease liabilities of $412,093 (2021 - 1,217,499). The Company has total undiscounted lease liabilities with related parties of $16,792,993 (note 18). Of the total undiscounted lease liabilities, $1,065,557 are classified as held for sale.

12. CONVERTIBLE DEBENTURES AND PROMISSORY NOTES

The Company early adopted ASU 2020-06 on February 1, 2021 using the full retrospective method. The adoption eliminates the cash conversion and beneficial conversion feature models used to separately account for embedded conversion features as a component of equity.

Transaction costs related to the issuance of convertible promissory notes are apportioned to their respective financial liability and equity components (if applicable) in proportion to the allocation of proceeds as a reduction to the carrying amount of each component.

When valuing the financial liability component of the convertible debentures and promissory notes, the Company used specific interest rates assuming no conversion features existed. The resulting liability component is accreted to its face value over the convertible note’s term until its maturity date.

12. CONVERTIBLE DEBENTURES AND PROMISSORY NOTES (CONTINUED)

CONVERTIBLE DEBENTURES

The following is the continuity of the Company's convertible debentures issued in Canadian dollars. All below disclosure is denominated in U.S. dollars:

	December 31, 2018 issuance	January 30, 2019 issuance	Total
	$	$	$
Balance, January 31, 2020	2,066,976	4,179,094	6,246,070
New issuances on exercise of warrants	1,749,065	3,939,377	5,688,442
Conversions	(4,075,959)	(8,682,514)	(12,758,473)
Interest	190,003	409,237	599,240
Accretion expense	251,990	473,248	725,238
Interest paid – cash	(250,879)	(534,039)	(784,918)
Foreign exchange loss	68,804	215,597	284,401
Balance, January 31, 2021 and January 2022	-	-	-

The following transactions occurred during the year ended January 31, 2021:

(a) 262 convertible debentures were issued for gross proceeds of $195,734 (C$262,000). A total of $2,508,068 (C$3,209,000) in principal of the December 31, 2018 convertible debentures were converted into 4,011,250 common shares of the Company. The remaining balance outstanding is $nil.

(b) 497 convertible debentures were issued for gross proceeds of $371,297 (C$497,000). A total of $5,204,120 (C$6,673,000) in principal of the January 30, 2019 convertible debentures were converted into 8,341,250 common shares of the Company. The remaining balance outstanding is $nil.

(c) 1,988 warrants were exercised in connection with the convertible debentures issued on December 31, 2018, resulting in gross proceeds of $1,485,188 (C$1,988,000). 2,087 warrant debentures with a carrying amount of $1,632,114 (C$2,087,000) were converted into 2,313,322 common shares of the Company. At January 31, 2021, all warrants had been exercised or expired.

(d) 4,572 warrants were exercised in connection with the convertible debentures issued on January 30, 2019, resulting in gross proceeds of $3,415,633 (C$4,572,000). 4,587 warrant debentures issued under the January 30, 2019 issuance with a carrying amount of $3,595,099 (C$4,587,000) were converted into 5,098,872 common shares of the Company. At January 31, 2021, all warrants had been exercised or expired.

The following is a continuity of the Company's convertible promissory notes denominated in U.S. dollars:

	June 13, 2018 issuance	January 23, 2019 issuance	May 24, 2019 issuance	Total
	$	$	$	$
Balance, January 31, 2020	639,665	175,000	918,316	1,732,981
Payment	-	(175,000)	-	(175,000)
Interest	48,733	-	100,274	149,007
Accretion expense	384,192	-	111,466	495,658
Balance, January 31, 2021	1,072,590	-	1,130,056	2,202,646
Payment	-	-	(1,210,000)	(1,210,000)
Interest	17,649	-	40,685	58,334
Accretion expense	191,203	-	39,259	230,462
Balance, January 31, 2022	**1,281,442**	-	-	**1,281,442**

12. CONVERTIBLE DEBENTURES AND PROMISSORY NOTES (CONTINUED)

On June 13, 2018, the Company issued convertible promissory notes to the vendors that sold Eco Firma Farms, LLC to the Company in the aggregate principal amount of $2,000,000. The convertible promissory notes were convertible at $1.00 per share. The convertible promissory notes accrue interest at a rate of 4% per annum, compounded annually, and were fully due and payable on June 13, 2021. The Company is in an ongoing dispute with the vendors over repayment (note 22).

On issuance, the Company determined the conversion feature was a derivative liability as the convertible promissory notes are exercisable in USD while the functional currency of the Company is Canadian dollars. The fair value of the conversion feature as at January 31, 2022 was $nil (January 31, 2021 - $409,007).

On January 23, 2019, the Company issued a convertible promissory note to the vendor that sold Megawood Enterprises, Inc. to the Company in the principal amount of $175,000. The convertible note is convertible into 35,000 common shares of the Company at a conversion price of C$5.00 per conversion share and may be converted at any time between October 24, 2019 and January 24, 2020. On issuance, the Company determined the conversion feature was a derivative liability as the convertible promissory notes are exercisable in USD while the functional currency of the Company is Canadian dollars. The fair value of the conversion feature as at January 31, 2022 was $nil (January 31, 2021 - $nil). On February 21, 2020, the Company repaid the convertible promissory note with a cash payment of $130,000 and the issuance of 95,849 common shares (note 15).

On May 24, 2019, the Company issued a two-year unsecured convertible promissory note to a debtor of Swell Companies in the principal amount of $1,000,000. The convertible note accrues interest at 10% per annum compounded annually and payable at maturity. The note is convertible into common shares of the Company at a conversion price of $1.56 per share and may be converted at the maturity date. On issuance, the Company determined the conversion feature was a derivative liability as the convertible promissory notes are exercisable in USD while the functional currency of the Company is Canadian dollars. The fair value of the conversion feature as at January 31, 2022 was $nil (January 31, 2021 - $76,150).

On May 24, 2021 the note was fully repaid.

PROMISSORY NOTES

The following is a continuity of the Company's promissory notes denominated in U.S. dollars:

	January 1, 2019 issuance
	$
Balance, January 31, 2020	21,200,000
Payments	(7,013,333)
Balance, January 31, 2021	14,186,667
Payments	(6,080,000)
Balance, January 31, 2022	**8,106,667**
Current portion	6,080,000
Non-current portion	2,026,667

On January 1, 2019, the Company issued a promissory note to Mr. Newman, who sold Silver State to the Company in the principal amount of $30,000,000. The note is payable in the following principal instalments: $3,000,000 on April 1, 2019, $6,000,000 on each of July 1, 2019, October 1, 2019, January 1, 2020, and April 1, 2020, and $3,000,000 on July 1, 2020. The note accrues interest at a rate of 10% per annum. The note is secured by all of the outstanding membership interests, and a security interest in all of the assets, of Silver State.

(Expressed in U.S. dollars, except as noted)

12. CONVERTIBLE DEBENTURES AND PROMISSORY NOTES (CONTINUED)

On July 1, 2019, the terms of the promissory note payable for the acquisition of Silver State were amended to call for immediate payment of $2,000,000 plus accrued interest on July 1, 2019 followed by payments of $800,000 plus accrued interest on the first of each of August, September, October, November, and December 2019.

Effective November 21, 2019 and June 25, 2020, Mr. Newman and the Company agreed to further amend the terms of the secured promissory note due to Mr. Newman. The December 1, 2019 principal payment of $800,000 was cancelled and the monthly principal payments thereafter were reduced to $600,000 per month. Further, the annual interest rate on the note was reduced from 10% to 9.5%. The remaining balance on the note is due and payable on January 1, 2021. This modification resulted in a gain of $nil.

On November 19, 2020, the Company announced agreement with Mr. Newman that the remaining $15,200,000 principal outstanding on his senior secured Note, due to mature on January 1, 2021, has been amended with lower monthly payments amortized over a 30-month period. Commencing December 1, 2020, the monthly payments will be $506,667 plus interest. The interest rate at 9.5% is unchanged.

For the year ended January 31, 2022, interest expense was $1,032,691 (year ended January 31, 2021 - $1,643,363). Interest paid during the year ended January 31, 2022 was $1,082,500 (year ended January 31, 2021 - $1,715,750).

13. RECLAMATION OBLIGATION

The Company has recorded a decommissioning provision in connection with estimated reclamation costs on a previously written off property. The obligation is recognized based on the estimated future reclamation costs. The Company had two wells in Alberta which were determined to be uneconomic and costs have been incurred to plug these wells. Reclamation and remediation work is still required to bring the site back to its natural state.

14. DERIVATIVE LIABILITIES

The following reflects the continuity of derivative liabilities:

	Conversion features of convertible promissory notes	Earn out shares	Total
	$	$	$
Balance, January 31, 2020	151,242	3,699,154	3,850,396
Fair value adjustment on derivative liabilities	333,915	5,422,280	5,756,195
Effect of foreign exchange	-	152,536	152,536
Balance, January 31, 2021	485,157	9,273,970	9,759,127
Fair value adjustment on derivative liabilities	(485,157)	(8,091,133)	(8,576,290)
Settlement of Phantom earn out	-	(677,939)	(677,939)
Effect of foreign exchange	-	501,470	501,470
Balance, January 31, 2022	-	**1,006,368**	**1,006,368**

Upon the February 4, 2019 acquisition of Phantom Farms the vendors can earn up to 4,500,000 'earn out' shares over a period of seven years. The conditions were based on the Company's common shares exceeding certain share prices during the period. The liability was derived using a Monte Carlo simulation. On January 24, 2022, the Company issued 1,300,000 common shares for full settlement of the Phantom earn out shares.

(Expressed in U.S. dollars, except as noted)

14. DERIVATIVE LIABILITIES (CONTINUED)

Upon the May 24, 2019 acquisition of Swell Companies the vendors can earn up to 6,000,000 'earn out' shares over a period of seven years. The conditions are based on C21 common shares exceeding certain share prices during the period. Additionally, the 50% of the earn out shares are earned upon a change of control of the Company. The liability is derived using a Monte Carlo simulation.

Significant inputs into the Monte Carlo simulation used to determine the fair value of earn of earn out shares were as follows:

	Earn out shares January 31, 2022	Earn out shares January 31, 2021
Discount rate	1.24%	0.30%
Expected life in years	4.33	5.34
Expected stock volatility	80%	80%
Expected volatility of foreign exchange	6.52%	5.29%

The fair value of the conversion features of the convertible promissory notes is determined using a Black-Scholes option pricing model. Significant inputs into the calculation were as follows:

	Conversion feature of June 13, 2018 issuance issuance of convertible promissory notes January 31, 2021	Conversion feature of May 24, 2019 issuance of convertible promissory notes January 31, 2021
Discount rate	0.18%	0.18%
Expected life in years	0.36	0.31
Expected stock volatility	85%	86%
Stock price (CAD)	$1.54	$1.54
Exercise price (CAD)	$1.28	$2.00

The conversion features of the June 13, 2018 and May 24, 2019 convertible promissory notes expired on June 13, 2021 and May 24, 2021, respectively. As such, the fair value of each at January 31, 2022 was $nil.

(Expressed in U.S. dollars, except as noted)

15. SHAREHOLDERS' EQUITY

Common stock consists of one class of fully paid common shares, with no par value. The Company is authorized to issue an unlimited number of common shares. All shares are equally eligible to receive dividends and repayment of capital and represent one vote at the Company's shareholders' meetings.

The following table reflects the continuity of common stock for the years ended January 31, 2022 and 2021:

	Number of Shares	Common stock
		$
Balance, January 31, 2020	89,388,639	85,096,509
Shares issued - acquisition of Phantom Farms (i)	7,132,042	2,582,903
Shares issued - Megawood (ii)	95,849	38,415
Shares issued - option exercises (iii)	200,000	98,950
Shares issued - conversion of debentures (iv)	19,764,694	12,758,473
Shares issued - Swell commitment (v)	456,862	429,582
Shares issued - EFF commitment (vi)	19,774	21,371
Standby warrants issued	-	2,116,192
Share-based compensation	-	494,435
Balance, January 31, 2021	117,057,860	103,636,830
Shares issued - PF warrants exercises (vii)	456,100	533,326
Shares issued - EFF commitment (viii)	19,774	21,787
Shares issued - Guaranteed warrants (ix)	1,214,080	-
Shares issued - Settlement of Earn out shares (x)	1,300,000	677,939
Share-based compensation	-	366,469
Balance, January 31, 2022	120,047,814	105,236,351

(i) On February 19, 2020, the Company amended the terms of the purchase of Phantom Farms, including SDP. The amended terms of the purchase agreement regarding the real estate assets of SDP group resulted in the Company electing to purchase the real estate of the Phantom Farms outdoor grow (two parcels), and SDP receiving 7,132,042 shares of C21 with a fair value of $2,582,903.

(ii) On February 21, 2020, the Company repaid the convertible promissory note with a cash payment of $130,000 and the issuance of 95,849 common shares with a fair value of $38,415 (note 12).

(iii) On October 15, 2020, the Company issued 200,000 shares upon the exercise of stock options.

(iv) During the year ended January 31, 2021 the Company issued 19,764,694 shares upon the conversion of debentures.

(v) On November 23, 2020, the Company issued 456,862 common shares to Swell as part of the purchase agreement dated May 23, 2019 as final settlement of the Company's commitment to issue shares.

(vi) On December 30, 2020, the Company issued 19,774 common shares to the vendors of EFF for a partial settlement of the Company's commitment to issue shares.

(vii) On February 4, 2021 the Company issued 456,100 shares upon the exercise of Phantom Farm warrants.

(Expressed in U.S. dollars, except as noted)

15. SHAREHOLDERS' EQUITY (CONTINUED)

(viii) On April 5, 2021, the Company issued 19,774 common shares to the vendors of EFF for a partial settlement of the Company's commitment to issue shares.

(ix) On June 17, 2021, the Company issued 1,214,080 common shares pursuant to the cashless exercise of 4,160,000 warrants.

(x) On January 24, 2022, the Company issued 1,300,000 common shares for the settlement of Phantom earn out shares.

COMMITMENT TO ISSUE SHARES

The Company issued a promissory note payable to deliver 2,142,000 shares to the vendors of EFF in the amount of $1,905,635, without interest, any time after October 15, 2018. As at January 31, 2022 the Company has a remaining commitment to deliver 793,093 shares.

WARRANTS

The following summarizes the Company's warrant activity:

	Warrants outstanding	Weighted average exercise price	Weighted average remaining life
	#	C$	Years
Balance January 31, 2020	5,694,746	1.66	0.74
Issued	6,200,000	1.00	
Balance, January 31, 2021	11,894,746	1.32	1.96
Exercised	(4,616,100)	1.05	
Expired	(4,038,646)	1.73	
Balance, January 31, 2022	**3,240,000**	**1.18**	**2.10**

As at January 31, 2022, the following warrants were outstanding and exercisable:

Expiry Date	Exercise Price	Number of Warrants
	C$	#
December 31, 2023	1.00	632,400
January 30, 2024	1.00	1,407,600
May 24, 2024	1.50	1,200,000
		3,240,000

On May 28, 2020, the Company extended the expiry date of 2,794,746 warrants with an exercise price of C$1.83, from May 29, 2020 to May 29, 2021, with all other terms the same. These warrants expired unexercised on May 29, 2021.

On February 4, 2021, 456,100 warrants with an exercise price of $1.17 (C$1.50) were exercised to purchase 456,100 common shares of the Company for proceeds of $533,326. Of the warrants exercised, 426,100 were exercised by a Director of the Company. On the same date, 1,243,900 warrants expired unexercised.

(Expressed in U.S. dollars, except as noted)

15. SHAREHOLDERS' EQUITY (CONTINUED)

On June 17, 2021, 4,160,000 warrants were exercised on a cashless basis for 1,214,080 common shares of the Company.

STOCK OPTIONS

The Company is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option is set by the Board of Directors and shall not be less than the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years. Vesting is determined by the Board of Directors.

Details of the Company's stock option activity are as follows:

	Options outstanding and exercisable	Weighted average exercise price	Weighted average remaining life
	#	C$	Years
Balance January 31, 2020	3,255,000	1.78	2.18
Granted	4,055,000	0.73	
Exercised	(200,000)	0.65	
Expired/Cancelled	(145,000)	0.71	
Balance, January 31, 2021	6,965,000	1.22	2.05
Expired	(1,350,000)	2.80	
Balance January 31, 2022	**5,615,000**	**0.84**	**1.45**

As at January 31, 2022, the following stock options were outstanding and exercisable:

Expiry Date	Exercise Price	Outstanding	Exercisable
	C$	#	#
February 5, 2022	1.11	460,000	460,000
October 9, 2022	1.38	500,000	500,000
January 24, 2023	0.80	100,000	100,000
August 17, 2023	0.70	3,905,000	2,603,333
January 28, 2024	1.50	150,000	100,000
October 9, 2024	1.00	500,000	500,000
		5,615,000	**4,263,333**

During the year ended January 31, 2022, the Company recorded a share-based compensation expense of $366,469 (2021 – $494,435). The fair value of stock options was calculated using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

Expiry Date	2022	2021
Risk-free rate	-	0.19%
Expected term of options	-	3 years
Annualized volatility	-	80%
Dividend rate	-	0%

(Expressed in U.S. dollars, except as noted)

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses for the years ended January 31, 2022 and 2021 were comprised of the following:

	2022	2021
	$	$
Accounting and legal	**665,248**	501,854
Depreciation and amortization	**1,280,446**	1,321,686
License fees, taxes and insurance	**1,807,645**	1,705,539
Office Facilities and administrative	**301,944**	253,230
Operating lease cost	**591,376**	549,031
Other	**340,224**	372,307
Professional Fees and consulting	**701,999**	650,188
Salaries and wages	**2,913,900**	2,884,320
Share-based compensation	**366,469**	494,435
Shareholder Communications	**26,781**	15,834
Travel and entertainment	**59,142**	58,975
	9,055,174	8,807,399

17. SEGMENTED INFORMATION

The Company defines its major geographic operating segments as Oregon and Nevada. Due to the jurisdictional cannabis compliance issues ever-present in the industry, each state operation is by nature operationally segmented.

Key decision makers primarily review revenue, cost of sales expense, and gross margin as the primary indicators of segment performance. As the Company continues to expand via acquisition, the segmented information will expand based on management's agreed upon allocation of costs beyond gross margin.

Segmented operational activity and balances are as follows:

January 31, 2022	Discontinued operations	Nevada	Corporate	Consolidated
	$	$	$	$
Total revenue	1,128,403	32,982,976	-	34,111,379
Gross profit	(473,854)	18,809,985	-	18,336,131
Operating expenses:				
Selling, general and administrative	(429,969)	(3,880,871)	(2,936,012)	(7,246,852)
Operating lease cost	(1,233)	(591,376)	-	(592,609)
Depreciation and amortization	(207,319)	(1,276,640)	(3,806)	(1,487,765)
Share-based compensation	-	-	(366,469)	(366,469)
Impairment of inventory	(1,093,308)	-	-	(1,093,308)
Impairment of intangible asset	(363,510)	-	-	(363,510)
Interest, accretion, and other	284,125	22,171	7,355,059	7,661,355
Net income (loss) before taxes	**(2,285,068)**	**13,083,269**	**4,048,772**	**14,846,973**

ENTITY-WIDE DISCLOSURES

All revenue for the years ended January 31, 2022 and January 31, 2021 was earned in the United States.

For the years ended January 31, 2022 and January 31, 2021, no customer represented more than 10% of the Company's net revenue.

(Expressed in U.S. dollars, except as noted)

17. SEGMENTED INFORMATION (CONTINUED)

The following table displays the disaggregation of long-lived assets by geographic area:

	January 31, 2022	January 31, 2021
	$	$
Nevada	**11,903,430**	10,110,806
Discontinued operations (Oregon)	**1,817,633**	1,946,961
Other	**24,414**	28,117
Total	**13,745,477**	12,085,884

18. COMMITMENTS

The Company and its subsidiaries are committed under lease agreements with related parties, for land, office space, and equipment in Nevada and Oregon as well as for mortgage payments on a building held for sale. At January 31, 2022, the Company has the following future minimum payments:

	Mortgage	Leases with related parties	Total
	$	$	$
2023	55,465	1,467,282	1,522,747
2024	48,855	1,504,455	1,553,310
2025	45,551	1,314,551	1,360,102
2026	45,551	1,353,987	1,399,538
2027	45,551	1,394,607	1,440,158
Thereafter	368,201	9,148,937	9,517,138
	609,174	**16,183,819**	**16,792,993**

Leases with related parties includes $456,383 of undiscounted lease payments for lease liabilities held for sale.

19. INCOME TAXES

The Company is a Canadian resident company, as defined in the Income Tax Act (Canada) (the "ITA"), for Canadian income tax purposes. However, it has subsidiaries that are treated as United States corporations for US federal income tax purposes per the Internal Revenue Code (US) ("IRC") and are thereby subject to federal income tax on their worldwide income. As a result, the Company is subject to taxation both in Canada and the United States.

The components of the income tax provision for the years ended January 31, 2022 and 2021 include:

	January 31, 2022	January 31, 2021
	$	$
Current		
Canadian	-	-
US Federal	**3,425,756**	2,366,046
Total current income tax expense	**3,425,756**	2,366,046
Deferred		
Canadian	-	-
US Federal	**547,490**	602,087
Total deferred income tax recovery	**547,490**	602,087
Total income tax expense	**3,973,246**	2,968,133

(Expressed in U.S. dollars, except as noted)

19. INCOME TAXES (CONTINUED)

The domestic and foreign components of Income (loss) before provision for income taxes consisted of the following:

	January 31, 2022	January 31, 2021
	$	$
Canadian	6,985,670	(11,678,406)
US Federal	10,146,371	10,044,967
Income (loss) before income taxes	17,132,041	(1,633,439)

A reconciliation of the statutory income tax rate percentage to the effective tax rate for the years ended January 31, 2022 and 2021 is as follows:

	January 31, 2022	January 31, 2021
	$	$
Income (loss) for the year	17,132,041	(1,633,439)
Statutory rate	27%	27%
Income tax expense (recovery) at statutory rate	4,625,652	(441,029)
Non-deductible expenditures and non-taxable revenues	1,530,604	1,842,777
Foreign tax rate differential	(608,783)	(602,698)
Change in valuation allowance	(654,621)	737,667
Adjustment to provision versus statutory tax returns	(919,606)	1,431,416
	3,973,246	2,968,133

The significant components of the Company's deferred tax assets as follows at January 31, 2022 and 2021:

	January 31, 2022	January 31, 2021
	$	$
Deferred tax assets		
Share issuance costs and financing fees	254,662	505,035
Allowable capital losses	140,224	138,421
Non-capital losses	4,409,825	3,834,262
Intangible assets	940,967	816,736
Mineral resource properties	-	983,977
Right of use assets and lease liabilities, net	98,352	63,032
Goodwill	-	-
Reclamation obligation	14,923	14,852
Total deferred tax assets	5,858,953	6,356,315
Valuation allowance	(4,919,214)	(5,573,835)
Total net deferred tax assets	939,739	782,480
Deferred tax liabilities		
Property and equipment	(930,715)	(225,966)
Net deferred tax asset	9,024	556,514

(Expressed in U.S. dollars, except as noted)

19. INCOME TAXES (CONTINUED)

Realization of deferred tax assets associated with the net operating loss carryforwards is dependent upon generating sufficient taxable income prior to their expiration. A valuation allowance to reflect management's estimate of the net operating loss carryforwards that may expire prior to their utilization has been recorded at January 31, 2022.

As of January 31, 2022, the Company has $16.3 million of Canadian non-capital loses which expire between 2026 and 2042, and Canadian capital losses of $1 million with no expiry date. The Company determined a valuation allowance was applicable for the full amount of the available Canadian losses and for the other Canadian deferred tax assets.

As the Company operates in the cannabis industry, the Company is subject to the limits of Internal Revenue Code ("IRC") Section 280E for US federal income tax purposes as well as state income tax purposes for all states except for California and Colorado. Under IRC Section 280E, the Company is only allowed to deduct expenses directly related to costs of goods sold. This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred by the Canadian entity over the three-year period ended January 31, 2022. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

On the basis of this evaluation, as of January 31, 2022, a valuation allowance of $4,919,214 ($5,573,835 in 2021) has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth.

The Company recognizes benefits from uncertain tax positions based on the cumulative probability method whereby the largest benefit with a cumulative probability of greater than 50% is recorded. An uncertain tax position is not recognized if it has less than a 50% likelihood of being sustained. As of January 31, 2022, and January 31, 2021, the Company has not recorded any uncertain tax assets or liabilities.

The Company does not expect that uncertain tax benefits will materially change in the next 12 months. The Company is subject to taxation in Canada and the United States. As of January 31, 2022, tax years for 2019, 2020, and 2021 are subject to examination by the tax authorities. The 2018 tax year is also subject to investigation in Canada.

20. RELATED PARTY TRANSACTIONS

Balances due to related parties included in accounts payable, accrued liabilities, and promissory note payable at January 31, 2022 and 2021:

	January 31, 2022	January 31, 2021
	$	$
Due to the President and CEO	**8,172,075**	14,369,004
Lease liabilities due to a company controlled by the CEO	**9,279,123**	9,539,744
Lease liabilities due to SDP Development	**412,093**	589,328
Due to the CFO of the Company	**360**	527
	17,863,651	24,498,603

(Expressed in U.S. dollars, except as noted)

20. RELATED PARTY TRANSACTIONS (CONTINUED)

Due to the President and CEO consists of promissory note principal and interest and reimbursable expenses incurred in the normal course of business.

The Company had the following transactions with related parties including key management personnel during the year ended January 31, 2022 and 2021:

	January 31, 2022	January 31, 2021
	$	$
Consulting fees paid to a director	**240,000**	-
Amounts paid to CEO or companies controlled by CEO	**8,632,619**	10,368,616
Salary paid to directors and officers	**496,807**	499,710
Share compensation for directors and officers	**251,333**	360,610
Convertible debenture interest paid to directors and officers	**-**	18,346
Lease payments made to SDP Development	**209,176**	228,192
	9,829,935	11,475,474

Amounts paid to CEO or companies controlled by CEO consists of salary, lease payments, and promissory note principal and interest.

On February 12, 2020, the Company amended the purchase agreement with SDP Development, of which a director of the Company is a principal owner. The Company had agreed on February 4, 2019 to purchase SDP Development on October 15, 2020, which owned six real estate properties that were leased in connection with Phantom Farms' cannabis cultivation, processing and wholesale distribution operations. The aggregate purchase price was $8,010,000 payable in cash, or, at the election of the vendors, in whole or in part by the issue of 2,670,000 shares at $3.00 per common share.

On February 12, 2020 the parties agreed to the following modified terms: the Company purchased the two Southern Oregon farms from SDP Development constituting over 60 acres of real property housing the two outdoor cannabis cultivation facilities totaling 80,000 square feet of canopy, rent reduction on the three Phantom properties in Central Oregon, and a release from the obligation to purchase the sixth property in Southern Oregon. In exchange, the SDP vendors received 7,132,041 common shares of the Company with a fair value of $2,582,903. The consideration exceeded the fair market value of the land acquired and as a result, the Company recorded transaction costs of $1,204,740. The Company has three remaining leases with SDP Development. The undiscounted future cash flows for the three remaining leases total $456,384.

On November 16, 2020, the Company amended the terms of the three Nevada leases with Double G Holdings (a Company controlled by the Company's President and CEO). The term of the two dispensary leases and the warehouse lease was extended to November 30, 2027 with a right to extend for a further five years and with an annual increase to the base rent of 3% commencing January 1, 2022. The undiscounted future cash flows for all three leases including the five-year extension total $16,930,437.

(Expressed in U.S. dollars, except as noted)

21. EARNINGS PER SHARE

The following is a reconciliation for the calculation of basic and diluted earnings per share for the years ended January 31, 2022 and 2021:

	January 31, 2022	January 31, 2021
Net income (loss) from continuing operations after income taxes	**$13,158,795**	$(4,601,572)
Net loss from discontinued operations after income taxes	**$(2,242,644)**	$(3,228,056)
Net income (loss)	**$10,916,151**	$(7,829,628)
Weighted average number of common shares outstanding	**118,308,584**	104,841,540
Dilutive effect of warrants and stock options outstanding	**2,833,093**	-
Diluted weighted average number of common shares outstanding	**121,141,677**	104,841,540
Basic earnings (loss) per share, continuing operations	**$0.11**	$(0.04)
Diluted earnings (loss) per share, continuing operations	**$0.11**	$(0.04)
Basic loss per share, discontinued operations	**$(0.02)**	$(0.03)
Diluted loss per share, discontinued operations	**$(0.02)**	$(0.03)
Basic earnings (loss) per share	**$0.09**	$(0.07)
Diluted earnings (loss) per share	**$0.09**	$(0.07)

The computation of diluted earnings per share excludes the effect of the potential exercise of warrants and stock options when the average market price of the common stock is lower than the exercise price of the respective warrant or stock option and when inclusion of these amounts would be anti-dilutive. For the years ended January 31, 2022 and 2021, the number of warrants and stock options excluded from the computation was 5,463,333 and 16,156,413, respectively.

22. CONTINGENCIES

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. Management is of the opinion that disposition of any current matter will not have a material adverse impact on the Company's balance sheet, results of operations, or the ability to carry on any of its business activities.

LEGAL PROCEEDINGS

Oregon Action: A complaint was filed in the Oregon State Circuit Court for Clackamas County, on April 29, 2019, by two current owners of Proudest Monkey Holdings, LLC (the former sole member of EFF) (the "Plaintiffs"), alleging contract, employment, and statutory claims, alleging $612,500 in damages (as amended), against the Company, its wholly-owned subsidiaries 320204 US Holdings Corp, EFF, Swell Companies Limited, and Phantom Brands LLC, in addition to three directors, two officers, and one former employee (the "Oregon Action"). The Company and the other defendants wholly denied the allegations and claims made in the lawsuit and is defending the lawsuit. On June 21, 2019, the Company filed Oregon Rule of Civil Procedure ("ORCP") 21 motions to dismiss all of the Plaintiffs' claims against it, its wholly-owned subsidiaries, and other defendants; on May 6, 2020, the court granted the Company's ORCP 21 motion in its entirety to dismiss all of Plaintiffs' claims. The judgment of dismissal was entered by the Clackamas County court on or about October 14, 2020. On November 12, 2020, Plaintiffs filed a notice of appeal of the judgement of dismissal.

22. CONTINGENCIES (CONTINUED)

On October 22, 2020, the Company submitted a petition to recover the costs and attorney fees incurred by the Company as the prevailing party in the Oregon Action. On January 20, 2021, the Court ruled in the Company's favor, awarding the Company and its subsidiaries $68,195 in attorney's fees, $1,252 in costs, and a statutory prevailing party fee of $640, through a supplemental judgment. On March 3, 2021, Plaintiffs filed an amended notice of appeal from the supplemental judgement awarding attorney fees.

The parties have since briefed the appeal to the Oregon Court of Appeals and await a determination from the Court. It is too early to predict the resolution of the appeal.

British Columbia Action: On or about September 13, 2019, the Company delivered a notice to the above-mentioned Plaintiffs of alleged breach and default under the EFF purchase and sale agreement, due to alleged unlawful, intentional acts and material misrepresentations by the Plaintiffs before and after the completion of the purchase. As a result of such breach, the Company denied the Plaintiffs' tender of their share payment notes in connection with the agreement. On or about October 14, 2019, Proudest Monkey Holdings, LLC and one of its current owners, sued the Company in the Supreme Court of British Columbia to compel the issuance and delivery of the subject shares, including interests and costs (the "British Columbia Action").

On November 8, 2019, the Company responded and counterclaimed for general, special and punitive damages, including interest and costs, related to breach of contract, repudiation of contract, breach of indemnity and fraudulent and negligent misrepresentation by the Plaintiffs. Plaintiffs filed a response to the Company's counterclaims on or about June 5, 2020, and the parties stipulated to a form of amended pleading which included the joinder of additional parties, an owner of Proudest Monkey Holdings, LLC and EFF, and additional contract and equitable claims and damages, partially duplicative to those alleged by the Plaintiffs in the Oregon lawsuit (breach of contract, indemnity, unjust enrichment and wrongful termination claims). Plaintiffs allege $2,774,176 in damages (as amended), plus unquantified additional damages, interest and costs, of which amounts are partially duplicative of the Oregon Action. This action remains in the discovery stage, but no trial date has been set. It is too early to predict the resolution of the claims and counterclaims.

Settled and Dismissed Action: On or about May 30, 2019, Wallace Hill Partners Ltd. ("Wallace Hill") filed a civil claim in the Supreme Court of British Columbia alleging breach of contract and entitlement to 1,800,000 common shares of the Company, fully vested by March 1, 2019, and damages due to the lost opportunity to sell those shares after such date for a profit. On June 23, 2019, the Company circulated a letter to Wallace Hill terminating the agreement and accepting Wallace Hill's repudiation of the agreement based on Wallace Hill's previously published defamatory comments and termination of the agreement. Also, on June 23, 2019, the Company filed its response to the civil claim denying all claims and filed counterclaims alleging breach of contract, a declaratory judgment of termination of the agreement, defamation and an injunction from further defamatory comments.

On March 23, 2022, the Company and Wallace Hill entered into a mutual release agreement, pursuant to which, among other things, all parties agreed to dismiss their respective claims and to release one another from any further causes of action in connection with the subject matter of the original claims. On April 23, 2022, the parties filed a Notice of Discontinuance in the Supreme Court of British Columbia formally dismissing the civil action.

(Expressed in U.S. dollars, except as noted)

23. FINANCIAL INSTRUMENTS

The following tables present information about the Company's financial instruments and their classifications as of January 31, 2022 and 2021 and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value:

Fair value measurements at January 31, 2022 using:

	Level 1	Level 2	Level 3	**Total**
	$	$	$	**$**
Financial liabilities:				
Conversion features of convertible promissory notes (note 14)	-	-	-	**-**
Earn out shares (note 14)	-	-	1,006,368	**1,006,368**

Fair value measurements at January 31, 2021 using:

	Level 1	Level 2	Level 3	**Total**
	$	$	$	**$**
Financial liabilities:				
Conversion features of convertible promissory notes (note 14)	-	-	485,157	**485,157**
Earn out shares (note 14)	-	-	9,273,970	**9,273,970**

The fair value of the conversion feature of convertible promissory notes was determined using the Black-Scholes option pricing model. The assumptions in the model were based on the share price and other active market data that is observable as well as unobservable estimates and therefore represent a level 3 measurement.

The fair value of the derivative liability associated with the earn out shares was derived using a Monte Carlo simulation using non-observable inputs, and therefore represent a level 3 measurement.

24. SUBSEQUENT EVENTS

On February 5, 2022, the balance of 460,000 of options issued on February 5, 2019 expired unexercised.

On February 10, 2022, the Company granted incentive stock options to purchase an aggregate of 600,000 common shares at an exercise price of C$0.70 per share vesting over a two-year period, expiring at the close of business on February 10, 2025.

On April 23, 2022, both parties to the C21 and Wallace Hill dispute (note 22) filed a Notice of Discontinuance in the Supreme Court of British Columbia and signed a mutual release to end this dispute.