

Spyder Cannabis Inc.
Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(expressed in Cdn \$)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Spyder Cannabis Inc.:

Opinion

We have audited the financial statements of Spyder Cannabis Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2020, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at January 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates that as of January 31, 2020 the Company had an accumulated deficit of \$3,340,437 and had generated negative cash flow from operations in the current year totaling \$779,394. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matter

The consolidated financial statements of the Company for the year ended January 31, 2019, were audited by another auditor who expressed an unmodified opinion on those statements on June 17, 2019.

Other information

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

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

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

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the Audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is George G. Lovrics.

Stern & Lovrics LLP

Toronto, Ontario
July 14, 2020

Chartered Professional Accountants
Licensed Public Accountants

Spyder Cannabis Inc.
Consolidated Statements of Financial Position
As at January 31
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current: | | |
| Cash | \$ 127,980 | \$ 81,532 |
| Guaranteed investment certificate | - | 400,000 |
| Sales tax receivable | 41,781 | 40,473 |
| Inventory (Note 6) | 151,845 | 155,426 |
| Prepaid expenses | 97,387 | 191,478 |
| | <u>418,993</u> | <u>868,909</u> |
| Non-current assets | | |
| Property and equipment (Note 7) | 264,693 | 136,473 |
| Right-of-use asset (Note 8) | 653,813 | - |
| Development permit (Note 11) | 163,833 | - |
| Total non-current assets | <u>1,082,339</u> | <u>136,473</u> |
| | <u>\$ 1,501,332</u> | <u>\$ 1,005,382</u> |
| LIABILITIES AND EQUITY | | |
| Current: | | |
| Trade and other payables (Note 9) | \$ 350,020 | \$ 248,693 |
| Loans payable - current (Note 10) | 501,494 | 24,967 |
| Current portion of lease liabilities (Note 12) | 123,596 | - |
| Total current liabilities | <u>975,110</u> | <u>273,660</u> |
| Non-current liabilities: | | |
| Lease liabilities (Note 12) | 592,066 | - |
| Loans payable (Note 10) | 46,388 | 58,252 |
| Convertible debentures (Note 13) | - | 1,170,988 |
| Total non-current liabilities | <u>638,454</u> | <u>1,229,240</u> |
| | <u>1,613,564</u> | <u>1,502,900</u> |
| SHAREHOLDERS' DEFICIENCY | | |
| Share Capital (Note 14) | 2,736,176 | 79,979 |
| Warrants (Note 16) | 99,398 | 28,250 |
| Equity component of convertible debentures | - | 239,142 |
| Contributed Surplus | 392,631 | 316,379 |
| Deficit | (3,340,437) | (1,161,268) |
| | <u>(112,232)</u> | <u>(497,518)</u> |
| | <u>\$ 1,501,332</u> | <u>\$ 1,005,382</u> |

Nature of Operations and Going Concern - Note 1

Commitment and contingencies - Note 23

Subsequent events - Note 24

Approved on behalf of the Board on July 14, 2020:

"Mark Pelchovitz"
Director

Daniel Pelchovitz
Director

Spyder Cannabis Inc.
Consolidated statements of Loss and Comprehensive Loss
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|---|----------------|--------------|
| Sales | \$ 756,929 | \$ 971,627 |
| Cost of sales | 400,401 | 496,757 |
| Gross margin | 356,528 | 474,870 |
| Expenses: | | |
| Marketing | 126,065 | 9,382 |
| Finance charges (Note 18) | 173,873 | 195,522 |
| General administration (Note 17) | 1,250,340 | 918,025 |
| Listing expense (Note 4) | 985,419 | - |
| Total expenses | 2,535,697 | 1,122,929 |
| Operating loss | (2,179,169) | \$ (648,059) |
| Deferred tax recovery | - | (27,661) |
| Loss and comprehensive loss for the year | \$ (2,179,169) | \$ (620,398) |
| Net loss per share - basic and diluted | \$ (0.07) | \$ (0.08) |
| Weighted average number of shares outstanding - basic and diluted | 30,340,153 | 7,728,102 |

Spyder Cannabis Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | Shares \$ Amount | Reserves | Equity component of Conv Deb. | Deficit | Total Equity |
|---|---------------------|-------------------|-------------------------------------|-----------------------|---------------------|
| Balance January 31, 2018 | \$ 730 | \$ 197,000 | \$ 82,393 | \$ (540,870) | \$ (260,747) |
| Net loss for year | | | | (620,398) | (620,398) |
| Shares issued | 79,249 | | | | 79,249 |
| Finders' warrants issued | | 28,250 | | | 28,250 |
| Equity portion of convertible debentures, net of deferred tax | | | 156,749 | | 156,749 |
| Stock base compensation | | 119,379 | | | 119,379 |
| Balance January 31, 2019 | \$ 79,979 | \$ 344,629 | \$ 239,142 | \$ (1,161,268) | \$ (497,518) |
| Balance January 31, 2019 | \$ 79,979 | \$ 344,629 | \$ 239,142 | \$ (1,161,268) | \$ (497,518) |
| Net loss for year | | | | (2,179,169) | (2,179,169) |
| Shares issued on conversion of Convertible debentures | 1,784,068 | 70,148 | (239,142) | | 1,615,074 |
| Common shares issued for services and purchase of Development Permit | 195,029 | | | | 195,029 |
| Shares and compensation options issued on RTO | 677,100 | 76,252 | | | 753,352 |
| Finders' warrants issued | | 1,000 | | | 1,000 |
| Balance January 31, 2020 | \$ 2,736,176 | \$ 492,029 | \$ - | \$ (3,340,437) | \$ (112,232) |

Spyder Cannabis Inc.
Consolidated Statements of Cash Flows
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

| | 2020 | 2019 |
|--|------------------|------------------|
| Cash was provided by (used in) the following activities: | | |
| Operating activities | | |
| Net loss for the year | \$ (2,179,169) | \$ (620,398) |
| Items not requiring an outlay of cash: | | |
| Amortization | 187,618 | 46,117 |
| Stock-based compensation | - | 119,379 |
| Accretion | 29,100 | 105,228 |
| Common shares issued for services | 20,000 | - |
| Deferred tax recovery | - | (27,661) |
| Interest on Right of use assets | 90,497 | - |
| Listing and related expenses | 874,869 | - |
| Change in non-cash working capital: | | |
| Deferred finance charges | - | 15,000 |
| Sales tax receivable | (1,308) | (23,581) |
| Inventory | 3,581 | (60,383) |
| Prepaid expenses | 94,091 | (163,193) |
| Trade and other payables | 101,327 | 87,420 |
| Cash flows provided by (used in) operating activities | (779,394) | (522,072) |
| Financing activities | | |
| Loans payable | 464,663 | (24,967) |
| Lease payments | (153,679) | - |
| Net cash proceeds from convertible debentures | 294,500 | 869,738 |
| Capital stock issued for cash | - | 42,100 |
| Cash flows provided by (used in) financing activities | 605,484 | 886,871 |
| Investing activities | | |
| Guaranteed investment certificates sold (purchased) | 400,000 | (400,000) |
| Development permit | 11,167 | - |
| Purchase of property and equipment | (190,809) | (5,241) |
| Cash flows provided by (used in) investing activities | 220,358 | (405,241) |
| Increase (decrease) in cash during the year | 46,448 | (40,442) |
| Cash, beginning of year | 81,532 | 121,974 |
| Cash, end of year | \$ 127,980 | \$ 81,532 |

Supplemental cash flow information:

Significant non-cash transactions for the year ended January 31, 2020:

- A fair value of \$175,000 on common shares issued for the development permit (Note 11)
- A fair value of \$20,029 on common shares issued for services rendered.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

1. Nature of business and Going Concern

Spyder Cannabis Inc. (Formerly Anchor Capital Corporation) (the "Company") was incorporated pursuant to the provisions of the Business Corporations Act (Alberta) on February 20, 2014. The Company is publicly-held and its common shares are listed on the TSX Venture Exchange ("TSX-V") and under the symbol "SPDR" and sells electronic cigarettes, cannabis supplies, Ejuice and accessories for the "vape" business from five Canadian retail locations; Woodbridge, Scarborough, Pickering, Niagara Falls and Burlington, Ontario. The Company is pursuing the sale of cannabis from retail stores in both Ontario and Alberta. The sale of cannabis in these provinces is subject to obtaining regulatory approval. The Company is also pursuing the sale of Hemp based CBD products from locations in the USA.

The address of the Company's corporate and registered office is 7600 Weston Road, Unit 51, Woodbridge, Ontario, L4L 8B7.

Going Concern

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the year ended January 31, 2020, the Company incurred losses of \$2,179,169 (2019 - \$620,398) resulting in an accumulated deficit at January 31, 2020 of \$3,340,437 and generated negative operating cash flows of \$779,394 during the year. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

As a result, within the next twelve months the Company will need to generate positive cash flows from operations, and/or obtain additional equity or debt financing in order to meet its liabilities as they come due and to continue with its business activities.

These consolidated financial statements do not reflect the adjustments or reclassification of assets and liabilities that would be necessary if the Company were unable to continue its operations.

Accordingly, these consolidated financial statements have been prepared on the basis of accounting policies applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

Further, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The impact on the Company is not currently determinable but management continues to monitor the situation.

Reverse Takeover

On May 31, 2019, the Company completed the acquisition of Spyder Vapes Inc. ("Vapes") a privately held company incorporated on August 18, 2014. The Company acquired all of the issued and outstanding shares of Vapes through a reverse takeover transaction (the "RTO"), which was affected pursuant to a merger agreement between Anchor Capital Corporation, a Canadian Public Company and Spyder Vapes Inc. The Company's and Vapes common shares were exchanged for an equivalent number of shares in the amalgamated corporation. The transaction closed on May 31, 2019. As part of the RTO, Vapes with 11304372 Canada Inc ("AcquisitionCo"), a wholly-owned subsidiary of the Company formed solely for the purpose of facilitating the three-cornered amalgamation (the "Amalgamation") in connection with the RTO. In accordance with the terms of the Amalgamation, the Company purchased all of the issued and outstanding common shares of Vapes on the basis of one (1) common share in the capital of the Company (each a "New Spyder Share") for each one (1) Vapes common share outstanding immediately prior to the Amalgamation. In addition, the Company, as the resulting issuer, also changed its name from "Anchor Capital Corporation" to "Spyder Cannabis Inc."

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Upon closing of the Amalgamation, the Company issued 40,025,331 New Spyder Shares and 5,230,561 New Spyder Shares reserved for issuance. The New Spyder Shares reserved for issuance include 1,379,828 warrants and 3,851,400 stock options. Further, following closing of the Amalgamation, (i) the former shareholders of Vapes owned approximately 88.7% of the issued and outstanding New Spyder Shares, (ii) the principals of Vapes collectively held 12,644,986 New Spyder Shares and 1,400,000 stock options.

2. Basis of Preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) in effect on January 31, 2020.

These consolidated financial statements were authorized for issuance by the Board of Directors on July 14, 2020.

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Functional and presentation currency

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

Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the years. Although these estimates are based on management’s best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates and judgements are significant to the consolidated financial statements are disclosed in Note 5.

3. Summary of Significant Accounting Policies

The accounting policies set out below are considered to be significant and have been applied consistently by the Company to all years presented in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries listed below:

| Name of subsidiary | Principle activity | Place of business and operations | Equity percentage |
|--|----------------------------|---|--------------------------|
| Spyder Vapes Inc. | Retail smoking accessories | Woodbridge, ON | 100% |
| Spyder Vapes (East) Inc. | Retail smoking accessories | Scarborough, ON | 100% |
| Spyder Vapes (Appleby) Inc. ⁽¹⁾ | Retail smoking accessories | Burlington, ON | 100% |
| The Green Spyder Inc. | Cannabis | Alberta | 100% |
| Spyder Cannabis Subco Inc. | Cannabis | Ontario | 100% |
| The Green Spyder (Lundy's) Inc. | Cannabis accessories | Ontario | 100% |
| The Green Spyder (Pickering) Inc. | Cannabis accessories | Ontario | 100% |
| The Green Spyder IP Inc. | Trademarks | Ontario | 100% |
| SPDR (USA) Corporation | Hemp CBD | USA | 100% |

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Summary of subsidiaries

SPDR (USA) Corporation is a wholly-owned subsidiary of the company which was incorporated in the State of Delaware, USA, to operate all the hemp based CBD business in the USA. The company was incorporated July 1, 2019

Spyder Cannabis Subco Inc. is the wholly-owned subsidiary of the company and holds all the investments in the Canadian subsidiaries. Spyder Cannabis Subco Inc. will operate the Ontario cannabis stores.

Spyder Vapes (East) Inc. is a wholly-owned subsidiary that was incorporated pursuant to the provisions of the Canada Business Corporations Act on December 7, 2015 for the purpose of operating a retail vape store. On December 19, 2015 the Company entered into a 5 year lease agreement.

Spyder Vapes Inc. is a wholly-owned subsidiary that was incorporated pursuant to the provisions of the Canada Business Corporations Act on August 18, 2014 for the purpose of operating a retail vape store. On October 20, 2014 the Company entered into a 10 year lease agreement.

Spyder Vapes (Appleby) Inc. is a wholly-owned subsidiary that was incorporated pursuant to the provision of the Canada Business Corporations Act on April 25, 2017 for the Purpose of operating a retail vape store. On May 8, 2017 the Company entered into a 5 year lease agreement.

The Green Spyder Inc. is a wholly-owned subsidiary of Spyder Cannabis Subco Inc. that was incorporated pursuant to the provisions of the Canada Business Corporations Act on June 8, 2018, for the purpose of operating the Spyder's cannabis retail stores within Alberta.

The Green Spyder (Pickering) Inc. is a wholly-owned subsidiary of The Green Spyder Inc. that was incorporated pursuant to the provisions of the Canada Business Corporations Act on November 7, 2018, for the purpose of operating Spyder's cannabis accessories retail store facility, to be located in Pickering, Ontario. On December 1, 2018, The Green Spyder (Pickering) Inc entered into a 5-year lease agreement.

The Green Spyder (Lundys) Inc. is a wholly-owned subsidiary of The Green Spyder Inc. that was incorporated pursuant to the provisions of the Canada Business Corporations Act on November 20, 2018, for the purpose of operating Spyder's cannabis accessories retail store facility, to be located in Niagara Falls, Ontario. On January 1, 2019, The Green Spyder (Lundys) Inc entered into 5-year lease agreement.

The Green Spyder IP Inc. is a wholly-owned subsidiary that was incorporated pursuant to the provisions of the OBCA on October 3, 2018, for the purpose of holding the trademarks.

Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of a company and be exposed to the variable returns from its activities. The financial statements of the above companies are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company transactions, balances and unrealized gains/losses on transactions between these companies are eliminated upon combination.

Cash

Cash consists of bank balances and funds held at lawyers trust.

Guaranteed Investment Certificates

Guaranteed investment certificates are cashable and are held at a Canadian Chartered bank.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated on a specific identification or first-in first-out basis and includes expenditures incurred in acquiring the inventories, production or

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided using the following methods at rates intended to depreciate the costs of the assets over their estimated use lives:

| Asset | Method | Rate |
|------------------------|-------------------|-------------|
| Furniture & equipment | Declining balance | 20% |
| Computer equipment | Declining balance | 30% |
| Leasehold improvements | Straight-line | 5 years |
| Automobile | Declining balance | 30% |
| Website | Straight-line | 2 years |

When a property and equipment asset has significant components with different useful lives, each significant component is depreciated separately. The estimated useful lives and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of income and other comprehensive income.

Repairs and maintenance costs that do not improve or extend productive life are recognized in the consolidated statement of loss and other comprehensive loss in the period in which the costs are incurred.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Foreign currencies

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in consolidated statement of loss and comprehensive loss in the period in which they arise.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable, net of sales tax, trade discounts, rebates and similar allowances.

Revenue is recognized when the criteria specific to each separately identifiable component is met and the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Company; and,
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue

Retail revenue consists of sales through the corporate stores and e-commerce operations. Sales through ecommerce operations are recognized upon the delivery of the goods to the customer and when collection is reasonably assured.

It is the Company's policy to sell merchandise with a limited right to return.

Cost of sales

Cost of sales includes direct materials, direct labour, shipping and handling related to the sale of goods.

Taxes

Tax expense is comprised of current and deferred tax. Tax is recognized in the consolidated statement of loss and other comprehensive loss except to the extent that it relates to items recognized in other comprehensive loss or equity on the statement of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realized, or the deferred tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled, and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Diluted loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares. The weighted average number of common shares outstanding is increased by the total number of additional common shares that would have been issued by the Company assuming exercise of all share options with exercise prices below the average market price for the year.

Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is recognized as an employee expense, with a corresponding increase in equity, over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Financial instruments

The Company adopted IFRS 9 as of February 1, 2018

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVTOCI") or amortized cost. The Company determines the classification of financial assets at initial recognition.

Financial assets at Fair-value through profit or loss

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. Realized and unrealized gains or losses from assets held at FVPTL are included in income or losses in the period in which they arise.

Financial assets at Fair-value through other comprehensive income

Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs with all subsequent changes in fair value recognized in other comprehensive income (loss). For investments in equity instruments that are not held for trading, the Company can make an irrevocable election (on an instrument-by-instrument bases) at initial recognition to classify them as FVTOCI. On the disposal of the investment, the cumulative change in fair value remains in other comprehensive income (loss) and is not recycled to profit or loss.

Financial assets at amortized cost

Financial assets are classified at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. The Company's accounts receivable are recorded at amortized cost as they meet the required criteria. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at each reporting period.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL. The Company's financial liabilities include trade and other payables which are classified at amortized cost.

The Company has completed a detailed assessment of its financial instruments as of February 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9

| Financial asset/liability | IAS 39 | IFRS 9 |
|----------------------------------|-----------------------------|----------------|
| Cash | FVTPL | FVTPL |
| Advances to shareholders | Loans and receivables | Amortized cost |
| Trade and other payables | Other financial liabilities | Amortized cost |
| Loans payable | Other financial liabilities | Amortized cost |
| Advances from shareholders | Other financial liabilities | Amortized cost |
| Convertible debentures | FVTPL | FVTPL |

The adoption of this standard did not have a material impact on the Company's consolidated financial statements but resulted in certain additional disclosures.

Impairment

IFRS 9 requires an 'expected credit loss' model to be applied which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in initial recognition.

Fair value hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The Company's cash and guaranteed investment certificate is valued at Level 1. Other than that, none of the Company's financial instruments is recorded at fair value on the consolidated statement of financial position. The fair values of financial instruments approximate their carrying values due to their short term to maturity. Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible secured subordinate debentures that can be converted to common shares at the option of the holder or upon the completion of a qualifying transaction, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Interest relating to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized

Changes in accounting standards from prior year

Effective February 1, 2019, the Company adopted IFRS 16, Leases (IFRS 16"), which supersedes previous accounting standards for leases, including IAS 17, Leases ("IAS 17"), and IFRIC 4, Determining whether an Arrangement Contains a Lease ("IFRIC 4"). IFRS 16 introduces a single lessee accounting model, unless the underlying asset is of low value, and requires a lessee to recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company leases properties for its retail stores. Lease contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Company estimates the incremental borrowing rate used to measure the lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as store profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows have not been included in the lease liability because it is not reasonably certain that the lease will be extended. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs, which affects this assessment and that is within the control of the lessee.

The Company has applied IFRS 16 in accordance with the modified retrospective approach only to contracts that were previously identified as leases. Contracts that were not identified as leases under previous standards were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after February 1, 2019. the Company has determined that there is no change to the comparative periods or transitional adjustments required as a result of the adoption of this standard. The Company's accounting policy for leases under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

A Lease liability is initially measured at the present value of the unpaid lease payments. Subsequently, the Company measures a lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any re-measurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

As a result of adopting IFRS 16, the Company has recognized a significant increase to both assets and liabilities on the Consolidated Statements of Financial Position, as well as a decrease to operating expenses (for the removal of base rent expense for leases), an increase to depreciation (due to the depreciation of the right-of-use assets), and an increase to finance costs (due to accretion of the lease liability). Tenant improvement allowances receivable become part of the lease liability under IFRS 16. Leasehold inducements, store closure costs and average rent adjustments are included in the calculation of right-of-use assets.

The Company did not apply IFRS 16 on a fully retrospective basis. The incremental borrowing rate applied to the lease liability on February 1, 2019 was 12%. The aggregate lease liability recognized in the Consolidated Statement of Financial Position at February 1, 2019 and the Company's operating lease commitment at February 1, 2019 is reconciled as follows:

| | |
|--|------------|
| Operating lease commitment at February 1, 2019 | \$ 686,369 |
| Effect of discounting lease commitments | 160,062 |
| Lease liability as at February 1, 2019 | \$ 526,307 |

4. Reverse takeover ("RTO")

On May 31, 2019, pursuant to the terms of the Transaction outlined in Note 1, the Company acquired all of the outstanding shares of Spyder Vapes Inc. These financial statements represent a continuation of Spyder Vapes Inc, not the Company. The acquisition constitutes an asset acquisition as the Company does not meet the definition of a business, as defined in IFRS 3, Business Combination.

For accounting purposes, the acquisition was considered to be a reverse acquisition under IFRS 3, Business Combinations ("IFRS 3") as the shareholders of Spyder Vapes Inc. obtained control of the Company. However, as the Company does not meet the definition of a business as defined by IFRS 3, it has been accounted for as a share-based payment transaction in accordance with IFRS 2. The accounting for this transaction resulted in the following:

- i) the consolidated financial statement of the combined entity are issued under the legal parent, Spyder Cannabis Inc., but are considered a continuation of the financial statements of the legal subsidiary, Spyder Vapes Inc.
- (ii) As Spyder Vapes Inc. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.
- iii) Since the shares allocated to the former shareholders of Anchor Capital Corporation Inc. on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of Anchor Capital Corporation Inc. acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as a listing expense.

The fair value of the 4,514,000 common shares and 551,400 stock options for all of the Anchor Corporation Inc. was determined to \$677,100 or \$0.15 per common share and \$76,252 respectively.

- iv) The fair value of all the consideration given and charged to listing expenses was comprised of:

| | | |
|---|----|-----------------|
| Fair value of the common shares and stock options issued at RTO date: | \$ | 753,352 |
| Identifiable assets acquired - May 31, 2019 | | |
| Cash | \$ | 29,233 |
| Accounts payable | | <u>(12,200)</u> |
| | | 17,033 |
| Unidentified assets acquired | | |
| Listing expense | | <u>736,319</u> |
| Total net identifiable assets and transactions costs | \$ | <u>753,352</u> |

- v) The company incurred additional listing expense of \$ 249,100 on this transaction.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

5. Use of judgements and estimates

In the application of the Company's accounting policies management is required to make judgements, estimates and assumptions that affect the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the years presented. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, the results of which form the basis of the valuation of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

The following are the critical judgements in applying accounting policies and key sources of estimation uncertainty at the end of the reporting year that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Estimates

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Critical accounting estimates are also those that could potentially have a material impact on the Company's financial results where a different estimate or assumption is used. The significant area of estimation uncertainty is the following:

Write-down of inventory

Inventory is carried at the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behaviour, and fluctuations in inventory levels.

Taxation

The calculations for current and deferred taxes require management's interpretation of tax regulations and legislation in the various tax jurisdictions in which the Company operates, which are subject to change. The measurement of deferred tax assets and liabilities requires estimates of the timing of the reversal of temporary differences identified and management's assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire, which involves estimating future taxable income.

The Company is subject to assessments by various taxation authorities in the tax jurisdictions in which it operates and these taxation authorities may interpret the tax legislation and regulations differently. In addition, the calculation of income taxes involves many complex factors. As such, income taxes are subject to measurement uncertainty and actual amounts of taxes may vary from the estimates made by management.

Deferred tax assets

Deferred tax assets, including those arising from tax loss carry-forwards, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

Judgements

Judgements is used in situations when there is a choice and/or assessment required by management. The following are critical judgements apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Determination of Cash Generating Units ("CGUs")

For the purposes of assessing impairment of non-financial assets, the Company must determine CGUs. Assets and liabilities are grouped into CGUs at the lowest level of separately identified cash flows. Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. The determination of the Company's CGUs was based on management's judgement in regard to shared infrastructure, geographical proximity and similar exposure to market risk and materiality. The Company has 1 CGU at January 31, 2020 and 2019.

Contingencies

Management uses judgement to assess the existence of contingencies. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management also uses judgement to assess the likelihood of the occurrence of one or more future events.

Stock-based compensation

The Company accounts for its stock-based compensation using the fair value method of accounting for stock options granted to directors and employees using the Black-Scholes option-pricing model. Stock-based compensation is measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Consideration paid upon the exercise of stock options, together with corresponding amounts previously recognized in contributed surplus, is recorded as an increase to share capital. The amount recognized as expense is adjusted for an estimated forfeiture rate for options that will not vest, which is adjusted as actual forfeitures occur, until the shares are fully vested.

Convertible Debenture

The calculation of convertible debentures and its equity portion and the accretion expenses on convertible debentures requires estimates of the effective interest rate which is based on the Company's incremental borrowing rate for a loan of similar terms but without the conversion feature. Any changes to the estimate can significantly affect the amortized cost of the convertible debenture, equity portion of the convertible debentures and the accretion expenses of the convertible debentures.

6. Inventory

| | 2020 | 2019 |
|------------------------|-------------------|-------------------|
| Finished goods | \$ 151,845 | \$ 155,426 |
| Inventory obsolescence | - | - |
| | \$ 151,845 | \$ 155,426 |

Inventories recognized as an expense and included in cost of sales during the year ended January 31, 2020 totaled \$400,401 (2019 – \$496,757).

Spyder Cannabis Inc.

Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

7. Property and equipment

| | Furniture and equipment | Computer equipment | Leasehold improvements | Website, signs and automobile | Total |
|----------------------------------|-------------------------------|-----------------------|---------------------------|----------------------------------|-------------------|
| Balance, January 31, 2018 | 52,967 | \$ 18,788 | \$ 145,163 | \$ 76,231 | \$ 293,149 |
| Additions | - | 2,441 | - | 2,800 | 5,241 |
| Balance, January 31, 2019 | 52,967 | 21,229 | 145,163 | 79,031 | 298,390 |
| Additions | 28,598 | 1,060 | 154,600 | 6,548 | 190,806 |
| Balance, January 31, 2020 | 81,565 | \$ 22,289 | \$ 299,763 | \$ 85,579 | \$ 489,196 |
| Accumulated depreciation | | | | | |
| Balance, January 31, 2018 | 14,367 | \$ 10,479 | \$ 41,342 | \$ 49,613 | \$ 115,801 |
| Charge for the year | 7,719 | 3,224 | 29,032 | 6,142 | 46,117 |
| Balance, January 31, 2019 | 22,086 | 13,703 | 70,374 | 55,755 | 161,918 |
| Charge for the year | 9,512 | 2,387 | 43,997 | 6,689 | 62,585 |
| Balance, January 31, 2020 | 31,598 | \$ 16,090 | \$ 114,371 | \$ 62,444 | \$ 224,503 |
| Net book value | | | | | |
| 2019 | 30,881 | \$ 7,526 | \$ 74,789 | \$ 23,276 | \$ 136,472 |
| 2020 | 49,967 | \$ 6,199 | \$ 185,392 | \$ 23,135 | \$ 264,693 |

8. Right-of-use assets

| | |
|----------------------------------|------------|
| Balance, February 1, 2019 | \$ 686,369 |
| Additions in year | 92,475 |
| | 778,844 |
| Depreciation | 125,031 |
| Net Book Value, January 31, 2020 | \$ 653,813 |

9. Trade and other payables

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Accounts payable and accrued liabilities | \$ 312,020 | \$ 136,900 |
| Salaries payable | 38,000 | 5,500 |
| Accrued interest | - | 106,292 |
| | \$ 350,020 | \$ 248,692 |

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

10. Loans payable

| | 2020 | 2019 |
|--|------------------|------------------|
| Vehicle loan payable in monthly installments of \$550, bearing 0% interest, maturity date of August 2021 and secured by related vehicle having a net book value of \$8,440 (2019- \$12,057) | \$ 10,461 | \$ 17,069 |
| Government Guaranteed bank loan payable in monthly installments of \$1,530 including interest at prime plus 3% per annum. The loan is secured by a general security agreement and is guaranteed by 2 shareholders of the Company to a maximum of 25% of the original amount advanced | 47,687 | 66,150 |
| OnDeck payable daily, bearing interest at approximately 22% per annum, unsecured and due within seven months | 30,059 | - |
| Loans payable, interest bearing at 12% per annum, secured and due on demand. | 459,675 | - |
| | 547,882 | 83,219 |
| Less current portion | 501,494 | (24,967) |
| Balance, January 31 | \$ 46,388 | \$ 58,252 |

11. Development permit

On August 29, 2019, Spyder announced that it had entered into a purchase agreement with an arm's length third party to acquire the vendor's interest in a Development Permit issued by the City of Calgary for the operation of a Cannabis Retail Store and an assignment of the lease attached to such Development Permit, located at 104-58th Avenue SE, Calgary, Alberta. The purchase price for the Development Permit and assignment of the lease was set at \$175,000, which was payable through the issuance of 3,000,000 Spyder Shares. The transaction was completed as contemplated on November 12, 2019. The Company incurred expenses of \$9,100 related to the purchase and recovered \$20,267 of security deposits that were part of the Development Permit.

12. Lease liabilities

As at January 31, 2020, The Company has entered into various lease agreements with payments of between \$940 to \$4,118 per month.

The Company has recorded the leases in existence at February 1, 2019 as a right-of-use asset (Note 8) and lease liabilities in the statement of financial position. At the commencement date of each lease, the lease liability was measured at the present value of the lease payments that have not been paid. The lease payments are discounted using an interest rate of 12%, which is the Company's incremental borrowing rate.

The continuity of the lease liability from February 1, 2019 is presented below:

| | |
|--------------------------------------|-------------------|
| Balance, January 31, 2019 | \$ - |
| Balance, February 1, 2019 | 686,369 |
| Additions in the year | 92,475 |
| Interest expense | 90,497 |
| Lease payments | (153,679) |
| Balance, January 31, 2020 | \$ 715,662 |
| | |
| Current portion of Lease liabilities | \$ 123,596 |
| Non-current lease liabilities | 592,066 |
| Balance January 31, 2020 | \$ 715,662 |

For the year ended January 31, 2020 finance costs on lease liabilities were recognized in the statement of comprehensive income and lease payments were recognized in the statement of cash flows.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

13. Convertible debentures

During the year ended January 31, 2019, the Company issued the following Debentures:

a) the Company issued the final tranche of the convertible debenture offering announced in 2018 and issued \$150,000 (3,000,000 debentures at \$0.05) secured with a first charge over assets of the Company and subordinated convertible debentures which mature 2 years from the date of issuance and bear interest at 10% per annum, payable annually. The debentures were issued to related and non-related counterparties. The convertible debentures were converted into common shares of the Company on May 31, 2019 at \$0.05 per common share.

b) Issued \$844,985 (8,449,850 debentures at \$0.10) secured with a first charge over assets of the Company and subordinated convertible debentures which mature 2 years from the date of issuance and bear interest at 10% per annum, payable annually. The debentures were issued to related and non-related counterparties. The convertible debentures were converted into common shares of the Company on May 31, 2019 at \$0.10 per common share. Pursuant to this offering the Company paid cash finders' fees totaling \$88,624 and incurred legal expenses totaling \$43,505. In addition, the Company issued 387,493 finders' warrants. Each finders warrant is exercisable into a common share of the Company for \$0.10 per share and also issued 387,493 finders' warrants. Each finders warrant is exercisable into a common share of the Company for \$0.10 per share for a period of 2 years from issuance. The finders warrants were valued at \$28,250 using a Black-Scholes option pricing model with the following assumptions: volatility of 154%, expected life of 2 years, risk-free interest rate of 1.60%, forfeiture rate of Nil, and expected dividend yield of 0%. The convertible debentures were converted into common shares of the Company on May 31, 2019 at \$0.10 per common share.

On the initial recognition, management used the residual method to allocate the fair value of conversion option. Management calculated the fair value of the liability component as \$810,575 using a discount rate of 22.5%, with the resulting residual amount of \$184,410 (less deferred tax of \$27,661) being the fair value of the conversion recorded in equity.

At the issuance date the convertible debentures issued in the prior year were recorded as follows:

| | |
|--|-------------------|
| Debt component | \$ 810,575 |
| Conversion option recognized in equity | 184,410 |
| Net proceeds | \$ 994,985 |

During the year ended January 31, 2020 the Company issued the following Debentures:

The Company completed a further tranche of the convertible debenture financing and issued \$294,500 (1,963,333 debentures at \$0.15) secured with a first charge over assets of the Company and subordinated convertible debentures which mature 2 years from the date of issuance and bear interest at 10% per annum, payable annually. The debentures were issued to non-related counterparties. The convertible debentures are convertible into Units of the Company at a conversion price of \$0.15 per Unit. Each Unit is comprised of one common share in the capital of the Company and one half of one common share purchase warrant (Note 16). The convertible debentures were converted into common shares of the Company on May 31, 2019 at \$0.15 per common share.

The Debt component of the debentures is being accreted using the effective interest rate method:

| | January 31 2020 | January 31 2019 |
|----------------------------|---------------------|---------------------|
| Opening balance | \$ 1,170,988 | \$ 455,831 |
| Issuance | 294,500 | 810,575 |
| Expense of issuance | (1,000) | (190,646) |
| Accretion | 29,100 | 105,228 |
| Converted to common shares | (1,493,588) | |
| Closing balance | \$ - | \$ 1,180,988 |

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

14. Share capital

The Company is authorized to issued unlimited number of common shares.

| | # | \$ |
|--|-------------------|------------------|
| Balance, January 31, 2018 | 7,300,000 | 730 |
| Shares issued (i) | 420,000 | 42,000 |
| Finders shares issued with convertible debentures (ii) | 372,493 | 37,249 |
| Balance, January 31, 2019 | 8,092,493 | 79,979 |
| Conversion of debenture (iii) | 1,963,333 | 293,500 |
| Conversion of debenture (iv) | 25,368,549 | 1,490,568 |
| Issued for services (v) | 86,956 | 10,000 |
| RTO shares issued | 4,514,000 | 677,100 |
| Balance outstanding at date of Takeover (Note 1) | 40,025,331 | 2,551,147 |
| Issued for development permit (v) | 3,000,000 | 175,000 |
| Issued for services (v) | 193,846 | 10,029 |
| Balance January 31, 2020 | 43,219,177 | 2,736,176 |

(i) During 2019 the Company issued 420,000 common shares at \$0.10 per share for cash proceeds of \$42,000.

(ii) During 2019 the Company issued 372,493 Finders common shares at \$0.10 per share for \$37,249 (Note 13).

(iii) In May 2019 the Company converted secured debentures that were issued in May 2019 into common shares (Note 13).

(iv) In May 2019, the Company converted secured debentures that were issued in prior years into common shares (Note 13).

(v) During the year the company issued 280,802 common shares for services rendered and 3,000,000 common shares for the purchase of the Development permit (Note 11).

15. Share based payments

On September 1, 2017, the Company established a stock-based compensation plan (the “Plan”) which provides for the granting of incentive share options, non-statutory share options, share appreciation rights, restricted share awards, restricted share unit awards, and other share awards (collectively “Share Awards”) to selected directors, employees and consultants for a period of 5 years from the establishment of the Plan. The Plan is intended to help the Company secure and retain the services and provide incentives for increased efforts for the success of the Company.

The Board of Directors grants Share Awards from time to time based on its assessment of the appropriateness of doing so considering the long-term strategic objectives of the Company, its current stage of development, the need to retain or attract key personnel, the number of Share Awards already outstanding and overall market conditions.

The number of common shares reserved for issuance under the Plan is fixed at a maximum of ten percent of issued and outstanding common shares (the “Share Reserve”). Repurchase or return of previously issued shares to the Plan increases the number of shares available for issue.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

The fair value of options granted during the year ended January 31, 2019 was estimated on the date of the grant using the Black-Scholes option pricing model with the following:

| Grant Date | September 4, 2018 |
|---------------------------|--------------------------|
| Number of options granted | 200,000 |
| Grant date share price | \$0.10 |
| Exercise price | \$0.10 |
| Expected volatility | 154% |
| Expected life (years) | 5 |
| Expected dividend yield | 0% |
| Risk-free interest rate | 1.60% |
| Forfeiture rate | 0% |
| Fair value option | \$0.092 |

| Grant Date | October 10, 2018 |
|---------------------------|-------------------------|
| Number of options granted | 500,000 |
| Grant date share price | \$0.10 |
| Exercise price | \$0.10 |
| Expected volatility | 154% |
| Expected life (years) | 5 |
| Expected dividend yield | 0% |
| Risk-free interest rate | 1.60% |
| Forfeiture rate | 0% |
| Fair value option | \$0.092 |

| Grant Date | November 1, 2018 |
|---------------------------|-------------------------|
| Number of options granted | 600,000 |
| Grant date share price | \$0.10 |
| Exercise price | \$0.10 |
| Expected volatility | 154% |
| Expected life (years) | 5 |
| Expected dividend yield | 0% |
| Risk-free interest rate | 1.60% |
| Forfeiture rate | 0% |
| Fair value option | \$0.092 |

On the date of the RTO, the previously issued stock compensation for Anchor Capital Corporation was revalued and the estimated fair value of the compensation options was \$76,252 using the Black-Scholes option pricing model with the following assumptions: dividend of \$0.00; expected volatility of 154%; a risk-free interest rate of 1.38% and an expected term of approximately 5.5 years.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Total stock-based compensation recorded during the year ended January 31, 2020 was \$ Nil (2019 - \$119,379).
A summary of the Company's options outstanding at January 31 is as follows:

| | 2020 | | | 2019 | | |
|--------------------------------|-----------|----------------|----------------------------|-----------|----------------|----------------------------|
| | Number | Exercise Price | Remaining Contractual Life | Number | Exercise Price | Remaining Contractual Life |
| Balance, beginning of the year | 3,300,000 | 0.05 | 3.03 | 2,000,000 | 0.05 | 3.67 |
| Issued and revaluation | 551,400 | 0.10 | 5.16 | 1,300,000 | 0.10 | 4.71 |
| Balance, end of the year | 3,851,400 | 0.07 | 3.33 | 3,300,000 | 0.07 | 4.03 |
| Exercisable, end of the year | 3,851,400 | 0.07 | 3.33 | 3,300,000 | 0.07 | 4.03 |

At January 31, 2020, all 3,851,400 (2019 – 3,300,000) outstanding options are fully vested.

16. Warrants

In November 2018, the Company issued 387,493 warrants with an exercise price \$0.10 expiring in November 2020. The estimated fair value of the warrants was \$ 28,250 using the Black-Scholes option pricing model with the following assumptions: dividend of \$0.00; expected volatility of 154%; a risk-free interest rate of 1.60% and an expected term of 2 years.

In May 2019, as part of the \$1,963,333 debenture issue the Company issued 981,668 whole warrants with an exercise price \$0.30 expiring in May 2021. The estimated fair value of the warrants was \$ 70,148 using the Black-Scholes option pricing model with the following assumptions: dividend of \$0.00; expected volatility of 154%; a risk-free interest rate of 1.62% and an expected term of 2 years. In addition, the Company issued 10,667 finder's warrants having an estimated fair value of \$1,000. The estimated fair value of the finder's warrants was determined by using the Black-Scholes option pricing model with the following assumptions: dividend of \$0.00; expected volatility of 154%; a risk-free interest rate of 1.62% and an expected term of 2 years.

A summary of the Company's warrants outstanding at January 31 is as follows:

| | 2020 | | | 2019 | | |
|--------------------------------|-----------|----------------|----------------------------|---------|----------------|----------------------------|
| | Number | Exercise Price | Remaining Contractual Life | Number | Exercise Price | Remaining Contractual Life |
| Balance, beginning of the year | 387,493 | 0.10 | 0.83 | - | - | - |
| Granted | 992,335 | 0.30 | 1.30 | 387,493 | 0.10 | 1.83 |
| Balance, end of the year | 1,379,828 | 0.24 | 1.16 | 387,493 | 0.10 | 1.83 |
| Exercisable, end of the year | 1,379,828 | 0.10 | 1.16 | 387,493 | 0.10 | 1.83 |

Spyder Cannabis Inc.

Notes to the Consolidated Financial Statements

For the years ended January 31, 2020 and 2019

(Expressed in Canadian Dollars)

17. General administrative expenses

The break-down of the Company's general administrative expenses is as follows:

| | 2020 | 2019 |
|------------------------------------|---------------------|-------------------|
| Amortization (Note 7 & 8) | \$ 187,618 | \$ 46,117 |
| Professional fees | 318,232 | 131,573 |
| Rental | 132,394 | 144,889 |
| Salaries, wages and benefits | 427,015 | 293,055 |
| Stock-based compensation (Note 15) | - | 119,379 |
| Bank charges | 17,984 | 15,525 |
| Insurance | 14,202 | 12,288 |
| Lease walk-away | 13,617 | 52,882 |
| Telephone, website and Internet | 34,971 | 25,178 |
| General | 104,307 | 77,138 |
| | \$ 1,250,340 | \$ 918,024 |

18. Finance charges

Finance charges are comprised of the following:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Interest on loans payable and Right of use assets | \$ 100,482 | \$ 9,324 |
| Interest on convertible debentures | 44,291 | 80,970 |
| Accretion (Note 10) | 29,100 | 105,228 |
| | \$ 173,873 | \$ 195,522 |

19. Taxes

The provision for income taxes differs from the result that would have been obtained by applying the consolidated federal and provincial tax rates to the income before taxes. The difference results from the following items:

| | 2020 | 2019 |
|------------------------------------|----------------|--------------|
| Income (loss) before taxes | \$ (2,179,169) | \$ (648,059) |
| Statutory income tax rate (%) | 26.50 % | 14.92 % |
| Expected taxes at statutory rate | (577,480) | (96,690) |
| Changes in taxes resulting from: | | |
| Non-deductible items and other | 107,692 | 39,653 |
| Deferred tax assets not recognized | 551,328 | 29,376 |
| Change in income tax rates | (81,540) | - |
| Deferred tax recovery | \$ - | \$ (27,661) |

| Deferred Tax Assets (Liabilities) | 2020 | 2019 |
|-----------------------------------|-------------|------------------|
| Property and equipment | \$ - | \$ 3,918 |
| Non-capital losses | - | 18,530 |
| Convertible debt | - | 5,213 |
| Deferred tax asset (liability) | \$ - | \$ 27,661 |

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

The following table provides details of the unrecognized deductible temporary differences and unused losses which no deferred tax asset has been recognized:

| Unrecognized Deductible Temporary Differences | 2020 | 2019 |
|--|---------------------|-------------------|
| Non-capital losses | \$ 1,693,850 | \$ 652,148 |
| Financing costs | 246,000 | 52,000 |
| Property and equipment | 101,935 | - |
| Unrecognized Deductible Temporary Differences | \$ 2,041,785 | \$ 704,148 |

The Company's non-capital losses carried forward expire between 2035 and 2040. Deferred income tax assets were not recognized in respect of these items because, as at January 31, 2020, it was not probable that sufficient future taxable income will be available to the Company to utilize the benefits.

20. Capital management

The Company's objectives when managing capital are to:

- Deploy capital to provide an appropriate return on investment to its shareholders;
- Maintain financial flexibility in order to preserve the Company's ability to meet financial obligations; and,
- Maintain a capital structure that provides financial flexibility to execute on strategic opportunities.

The Company's strategy is formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. The Company is not subject to any externally imposed capital requirements or covenants.

The Company's capital structure consists of equity and working capital. In order to maintain or alter the capital structure, the Company may adjust capital spending, raise new debt and issue share capital.

21. Financial management and risk assessment

Fair value

Financial instruments of the Company consist of cash, trade and other payables, advances to/from shareholders', convertible debentures and loans payable. There are no significant differences between the carrying amounts of the current assets and current liabilities reported on the statements of financial position and their estimated fair values due to the short-term nature of these items. The convertible debentures and loans payable approximate their fair value as terms and conditions represent market terms and conditions.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies. Where quoted market values are not readily available, the Company may use considerable judgment to develop estimates of fair value. Accordingly, any estimated values are not necessarily indicative of the amounts the Company could realize in a current market exchange and could be materially affected by the use of different assumptions or methodologies.

The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, foreign exchange risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Interest rate risk

The Company is exposed to interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk arising from fluctuations in interest rates on its loans payable balance which accrues interest at a variable rate. Fluctuations in market rates do not have a significant impact on the Company's results of operations.

Credit risk

The Company is exposed to credit risk on its cash balance which is held with reputable financial institutions. As at January 31, 2020, management considered the Company's credit risk in relation to such financial assets to be low.

Liquidity risk

The Company is exposed to liquidity risk. Liquidity risk is the exposure of the Company to the risk of not being able to meet its financial obligations as they fall due. the Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. the Company's future liquidity is dependent on factors such as the ability to generate cash from operations and to raise money through debt or equity financing.

Undiscounted contractual cash outflow of financial liabilities based on maturity date are as follows:

| January 1, 2020 | 1 year | 2 to 5 years | >5 years | Total |
|--------------------------|------------|--------------|----------|------------|
| Trade and other payables | \$ 350,020 | \$ - | \$ - | \$ 350,020 |
| Loans payable | 501,494 | 46,388 | - | 547,882 |
| | \$ 851,514 | \$ 46,388 | \$ - | \$ 897,902 |

| January 1, 2019 | 1 year | 2 to 5 years | >5 years | Total |
|--------------------------|------------|--------------|----------|--------------|
| Trade and other payables | \$ 248,692 | \$ - | \$ - | \$ 248,692 |
| Loans payable | 24,967 | 58,252 | - | 83,219 |
| Convertible debentures | - | 1,517,895 | - | 1,517,895 |
| | \$ 273,659 | \$ 1,576,147 | \$ - | \$ 1,849,806 |

Foreign currency risk

Foreign exchange risk arises from the changes in foreign exchange rates that may affect the fair value or future cash flows of the Company's financial assets or liabilities. For the Company, it is the Canadian dollar denominated expenditures which presents the risk as the cash flows are denominated in Canadian dollars. An increase in the value of the Canadian dollar as compared to the US dollar will increase the net cash outflow relating to expenditures.

22. Related party transactions

Key management personnel compensation

The Company defines key management personnel as being the Chief Executive Officer and Chief Financial Officer. the Company does not provide non-cash benefits to the key management.

Key management compensation for the years ended January 31 is as follows:

| | 2020 | 2019 |
|---|--------|-----------|
| Stock-based compensation | \$ - | \$ 18,366 |
| Salaries and other short-term employee benefits | 62,400 | 62,400 |

Spyder Cannabis Inc.
Notes to the Consolidated Financial Statements
For the years ended January 31, 2020 and 2019
(Expressed in Canadian Dollars)

Other related party transactions and balances in the normal course of business:

- a) During the year the company paid professional and consulting fees in the amount of \$60,000 to Peldren Holdings Inc. a company controlled by the CFO.
- b) Included in the total Convertible debentures issued in 2019 are amounts with a face value of \$323,000 issued to related parties. These related parties are identified below along with the interest paid on these debentures in 2020.
 - i. \$285,000 debenture to the spouse of the CFO and interest paid on this debenture of approximately \$11,875 in 2020.
 - ii. \$5,000 debenture to one of the son's of the CFO and interest paid on this debenture of approximately \$ 200.
 - iii. \$23,000 debenture to the CFO and interest paid on this debenture of approximately \$960.
 - iv. \$10,000 debenture to the CEO and interest paid on this debenture of approximately \$400 in 2020.
- c) Included in loans payable (Note 10) are the following amounts due to related parties:
 - i. \$60,000 payable to Peldren Holdings Inc., a company controlled by the CFO.
 - ii. \$167,675 payable to the CFO.
 - iii. \$20,000 payable to the CEO.

23. Commitments

Leases

the Company has commitments relating to operating leases for its retail locations under non-cancelable operating lease. The future minimal annual rental payments under these operating leases are as follows:

| As at January 31, | 2020 |
|----------------------------|---------------------|
| One year | \$ 254,134 |
| Between two and five years | 698,601 |
| More than five years | 292,423 |
| | \$ 1,245,158 |

24. Subsequent events

Cannabis Retail Operator License

On May 12, 2020 the Company through its wholly-owned associated applicant, Spyder Cannabis Subco Inc., received a Cannabis Retail Operator License from the Alcohol and Gaming Commission of Ontario. On June 28, 2020 the Company received it's Cannabis Retail Authorization, located at 6474 Lundy's Lane, Niagara Falls, Ontario.

Conditional License.

On May 5, 2020 the Company through its wholly-owned associated applicants Spyder Cannabis Inc. and The Green Spyder Inc., received a conditional license from the Alberta Gaming, Liquor and Cannabis Commission to open a cannabis store located at 104-58th Avenue, SE, Calgary, Alberta. The company is waiting for the final license to be issued.