Spyder Cannabis Inc.

Consolidated Financial Statements
For the Years Ended January 31, 2021 and 2020
(Expressed in Canadian Dollars)

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Stern & Lovrics LLP
Chartered Professional Accountants

Samuel V. Stern, BA, CPA, CA
George G. Lovrics, BComm, CPA, CA

Nazli Dewji, BA, CPA, CMA

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Spyder Cannabis Inc.

Opinion

We have audited the financial statements of Spyder Cannabis Inc. (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the 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, 2021 the Company had an accumulated deficit of $4,650,055 (2020 - $3,340,437) and had generated negative cash flow from operations in the current year totaling $316,259 (2020 - $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 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 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 IFRS, 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
May 31, 2021

Chartered Professional Accountants
Licensed Public Accountants

Spyder Cannabis Inc.

Consolidated Statements of Financial Position
As at January 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
ASSETS		
Current		
Cash	**298,256**	127,980
Inventory *(Note 6)*	**171,300**	151,845
Prepaid expenses and sundry receivables	**73,584**	97,387
Sales tax receivable	**-**	41,781
	543,140	418,993
Non-current assets		
Property and equipment *(Note 7)*	**219,153**	264,693
Right-of-use assets *(Note 8)*	**469,976**	653,813
Development permit *(Note 12)*	**-**	163,833
Total non-current assets	**689,129**	1,082,339
Total assets	**1,232,269**	1,501,332
LIABILITIES AND EQUITY		
Current		
Trade and other payables *(Note 9)*	**745,811**	350,020
Current portion of lease liabilities *(Note 14)*	**57,569**	123,596
Loans payable - current *(Note 10)*	**925,567**	501,494
Total current liabilities	**1,728,947**	975,110
Non-current liabilities		
Lease liabilities *(Note 14)*	**552,306**	592,066
Government loan *(Note 11)*	**159,119**	-
Loans payable *(Note 10)*	**20,147**	46,388
Total non-current liabilities	**731,572**	638,454
Total liabilities	**2,460,519**	1,613,564
SHAREHOLDERS' DEFICIENCY		
Share capital *(Note 16)*	**2,929,776**	2,736,176
Warrants *(Note 18)*	**99,398**	99,398
Contributed surplus	**392,631**	392,631
Deficit	**(4,650,055)**	(3,340,437)
Total deficiency	**(1,228,250)**	(112,232)
Total liabilities and shareholders' deficiency	**1,232,269**	1,501,332

Nature of Operations and Going Concern *(Note 1)*
Commitments *(Note 26)*
Subsequent Events *(Note 27)*

Approved on behalf of the Board of Directors:

(signed) “Mark Pelchovitz”, Director (signed) “Steven Glaser”, Director

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

Spyder Cannabis Inc.

Consolidated Statements of Operations and Comprehensive Loss
For the Years Ended January 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Revenue	**1,276,124**	756,929
Cost of goods sold	**891,158**	400,401
Gross profit	**384,966**	356,528
Expenses		
General administration *(Note 19)*	**1,313,038**	1,376,405
Finance charges *(Note 20)*	**193,992**	173,873
Listing expense *(Note 1)*	**-**	985,419
Total expenses	**1,507,030**	2,535,697
Loss before other income (expenses)	**(1,122,064)**	(2,179,169)
Government assistance *(Note 11)*	**142,486**	-
Impairment expense *(Note 7, 12)*	**(330,040)**	-
Net loss and comprehensive loss	**(1,309,618)**	(2,179,169)
Loss per share - basic and diluted	**(0.03)**	(0.07)
Weighted average number of shares outstanding - basic and diluted	**44,924,822**	30,340,153

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

Spyder Cannabis Inc.

Consolidated Statements of Changes in Equity
For the Years Ended January 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Share Capital	Reserves	Equity Component of convertible debt	Deficit	Shareholders' Deficiency
	$	$	$	$	$
Balance January 31, 2019	79,979	344,629	239,142	(1,161,268)	(497,518)
Common shares issued for the conversion of convertible debenture	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
Net loss for year				(2,179,169)	(2,179,169)
Balance, January 31, 2020	**2,736,176**	**492,029**	**-**	**(3,340,437)**	**(112,232)**
Common shares issued on conversion of accounts payables	43,600	-	-	-	43,600
Common shares issued for the conversion of debt	150,000	-	-	-	150,000
Net loss for the year	-	-	-	(1,309,618)	(1,309,618)
Balance, January 31, 2021	**2,929,776**	**492,029**	**-**	**(4,650,055)**	**(1,228,250)**

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

Spyder Cannabis Inc.

Consolidated Statements of Cash Flows
For the Years Ended January 31, 2021 and 2020
(Expressed in Canadian Dollars)

	2021	2020
	$	$
Cash was provided by (used) in the following activities:		
Operating activities		
Net loss for the year	**(1,309,618)**	(2,179,169)
Items not requiring an outlay of cash:		
Depreciation	**242,112**	187,618
Accretion	**-**	29,100
Impairment expense	**330,040**	
Government assistance *(Note 11)*	**(142,486)**	
Interest on lease liability	**76,566**	90,497
Listing and related expenses	**-**	874,869
Change in non-cash working capital:		
Sales tax receivable	**41,781**	(1,308)
Inventory	**(19,455)**	3,581
Prepaid expenses	**23,803**	94,091
Trade and other payables	**440,998**	121,327
Cash flows used in operating activities	**(316,259)**	(779,394)
Financing Activities		
Loans payable	**547,832**	464,663
Government loan	**300,000**	-
Lease payments	**(127,655)**	(153,679)
Net cash proceeds from convertible debentures	**-**	294,500
Cash flows provided by financing activities	**720,177**	605,484
Investing Activities		
Guaranteed investment certificates	**-**	400,000
Development permit	**-**	11,167
Purchase of property and equipment (Note 4)	**(233,642)**	(190,809)
Cash flows provided by (used in) investing activities	**(233,642)**	220,358
Increase in cash during the year	**170,276**	46,448
Cash, beginning of year	**127,980**	81,532
Cash, end of year	**298,256**	127,980
Non-cash transactions		
Shares issued for on conversion of debt	**193,600**	
Shares issued for services		20,000

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

1. Nature of Operations and Going Concern

Spyder Cannabis Inc. (formerly, Anchor Capital Corporation) ("Spyder" or the "Company") was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) on February 20, 2014. The Company's common shares are currently listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol "SPDR". The Company is an established cannabis and vape retailer that sells cannabis products, vape and nicotine-related products, herbal vaporizers, other smoking cessation products and accessories where regulations permit. The Company's retail locations are currently located in the provinces of Ontario and Alberta and operate under the SPDR Cannabis, Spyder Vapes and 180 Smoke retail platforms. The Company's corporate and registered office is 7600 Weston Road, Unit 51, Woodbridge, Ontario, L4L 8B7.

Reverse Takeover

On May 31, 2019, the Company completed the acquisition of Spyder Vapes Inc. ("Spyder Vapes"), a privately held company incorporated on August 18, 2014. The Company acquired all of the issued and outstanding common shares of Spyder Vapes through a reverse takeover transaction (the "RTO"), which was affected pursuant to a merger agreement between Anchor Capital Corporation and Spyder Vapes Inc. As part of the RTO, 11304372 Canada Inc. ("Acquisition Co"), was formed as a wholly-owned subsidiary of the Company solely for the purpose of facilitating the three-cornered amalgamation (the "Amalgamation") in connection with the RTO. Pursuant to the Amalgamation, the Company purchased all of the issued and outstanding common shares of Spyder Vapes on the basis of one (1) common share in the capital of the Company for each issued and outstanding common share of Spyder Vapes 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."

Upon closing of the Amalgamation, the Company issued 40,025,331 common shares of the Company, warrants for the purchase of 1,379,828 common shares of the Company and options for the purchase of 3,851,400 common shares of the Company. Furthermore, following the closing of the Amalgamation, (i) the former shareholders of Spyder Vapes owned approximately 88.7% of the issued and outstanding common shares of the Company, and (ii) the principals of Spyder Vapes collectively held 12,644,986 common shares and options for the purchase of 1,400,000 common shares of the Company.

Going Concern and Impact of COVID-19

In March 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", was declared a pandemic by the World Health Organization, resulting in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions.

In accordance with Canadian, provincial and local government guidelines, the Company has experienced intermittent government-mandated closures of its retail stores, as well as capacity restrictions that has significantly impacted the operations and financial performance of the Company. The Company has continued to operate its retail locations and e-commerce platforms with strict cleaning protocols and social distancing measures in place, successfully generating substantial online sales growth that has partially offset the impact of retail store closures, constraints and in-store traffic declines.

1. Nature of Operations and Going Concern (continued)

Going Concern and Impact of COVID-19 (continued)

As a result of the significant negative impacts that COVID-19 has had on the global economy, consumer confidence and the retail operating environment, the Company's consolidated financial results for the year ended January 31, 2021 have been materially impacted. Since March 2020, the Company has implemented many strategies to reduce costs and manage liquidity to overcome the negative impacts of the pandemic, including but not limited to the following:

- Reduced selling, general and administrative costs, capital expenditures and other discretionary spending;
- Realized on personnel cost savings related to temporary layoffs as a result of store closures, temporary reductions in compensation and other hiring and salary freezes, where applicable;
- Worked with landlords to abate or defer a significant portion of retail store rents during retail shut downs or subsequent periods; and
- Evaluated, qualified and applied for applicable government relief programs, including the Canada Emergency Wage Subsidy ("CEWS") program (see *Note 13*).

Management recognizes that while it has implemented an action plan to best navigate the impacts of COVID-19 on the Company's business, there is still uncertainty with respect to the duration and extent to which the pandemic may adversely impact the operations and financial performance of the Company. The Company expects to have access to certain relief loans and other forms of support available to businesses impacted by COVID-19, however, to the extent that the pandemic continues, or further public restrictions are imposed by applicable governmental authorities, the degree to which the Company's operations and financial performance could be affected may further become impacted.

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. During the year ended January 31, 2021, the Company incurred losses of $1,309,618 (2020 - $2,179,169) resulting in an accumulated deficit as at January 31, 2021 of $4,650,055 (2020 - $3,340,437) and generated negative operating cash flows of $316,259 (2020 - $779,397) 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.

2. Basis of Preparation

a) 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, 2021. These consolidated financial statements were authorized for issuance by the Board of Directors on May 31, 2021.

b) Basis of Measurement

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

c) Functional and Presentation Currency

These consolidated financial statements are presented in Canadian Dollars, which is the functional currency of the Company and its subsidiaries.

d) Use of Estimates and Judgements

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences.

The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The fair value of securities traded in active markets are based on quoted market prices at the close of trading on the reporting date.

For public company warrants (i.e. the underlying security of which is traded on a recognized stock exchange), valuation models such as Black-Scholes are used when there are sufficient and reliable observable market inputs. These market inputs include risk-free interest rate, exercise price, market price at date of valuation, expected dividend yield, expected life of the instrument and expected volatility of the underlying security based on historical volatility.

3. Significant Accounting Policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: SPDR (USA) Corporation and Spyder Cannabis Subco Inc. and its wholly-owned subsidiaries: Spyder Vapes Inc.; Spyder Vapes (East) Inc.; Spyder Vapes (Appleby) Inc.; and The Green Spyder Inc. and its wholly-owned subsidiaries: The Green Spyder (Pickering) Inc., The Green Spyder (Lundy's) Inc. and The Green Spyder IP Inc. All inter-company transactions, balances and unrealized gains/losses on transactions between these subsidiaries are eliminated upon consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held in trust by counsel, cash deposits in financial institutions and other short-term deposits that are readily convertible into cash. Short-term deposits with maturity dates greater than 90 days are classified as short-term investments. The Company did not have any cash equivalents as at January 31, 2021 and 2020.

Inventory

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the first in first out method. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are comprised of all variable costs, and certain fixed costs, incurred in bringing inventories to the location and condition necessary for sale to customers. Storage and administrative overheads are expensed as incurred. Supplier rebates and discounts are recorded as a reduction in the cost of goods sold.

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.

3. Significant Accounting Policies (continued)

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and 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 & signs	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 operations and comprehensive loss.

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

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated on the cost of the asset less its residual value. Amortization is recognized in net earnings on a straight-line basis over the estimated useful lives of the intangible assets. Amortization of intangible assets not in service begins when they are ready for their intended use. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually or more frequently if events or changes in circumstances indicate the asset may be impaired. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3. Significant Accounting Policies (continued)

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed and in-substance fixed payments and variable lease payments that depend on an index or rate, less any lease incentives receivable. The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the Company's consolidated statements of operations.

When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable prices for a similar asset and/or service.

Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in selling, distribution and administrative expenses as incurred. Lease incentives received for variable payment leases are deferred and amortized as a reduction in recognized variable rent expenses over the term of the related leases.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

In sublease arrangements where the Company is the intermediate lessor, it determines whether the sublease is finance or operating by reference to the right-of-use asset. A sublease is a finance sublease if substantially all of the risks and rewards of the head lease right-of-use asset have been transferred to the sub-lessee and the Company accounts for the sublease as two separate contracts. The Company derecognizes the right-of-use asset corresponding to the head lease and records a net investment in the finance sublease with corresponding interest income recognized in finance income in the consolidated statements of operations and comprehensive loss and a net investment receivable recognized in trade and other receivables in the consolidated balance sheets.

Foreign currency translation

Revenues and expenses denominated in foreign currencies are translated into Canadian Dollars using the exchange rate in effect at the transaction date. Monetary assets and liabilities are retranslated at the reporting date using the rate in effect at the consolidate statements of financial position date and non-monetary items are translated at historical exchange rates. Related exchange gains and losses are included in the consolidated statements of operations and comprehensive loss for the period.

3. Significant Accounting Policies (continued)

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event; and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of operations and comprehensive loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

IFRS 15 - *Revenue from contracts with customers*

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

Revenue is recognized when the criteria specific to each separately identifiable component is met and follows the below 5-step approach:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract; and

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company's revenue consists of sales from its retail stores and e-commerce operations through the delivery of products and/or rendering of services. For retail store customers, control passes upon point of sale, and for e-commerce customers, control passes upon delivery. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for returns, discounts, rebates, and loyalty program costs, net of sales taxes. The Company sells products with a limited right to return. The provision for returns is estimated based on the last 12 month's return rate for retail stores and e-commerce sales, respectively.

Cost of goods sold

Cost of goods sold expense relates to the Company's retail and e-commerce operations, and includes direct materials, direct labor, and shipping and handling related to the sale of goods.

Government assistance

The Company recognizes government assistance when there is reasonable assurance that the Company has met the requirements of the approved grant program and the Company is reasonably certain, based on management's judgement, that the government grant will be received. Government assistance, including grants, related to operating expenses is accounted for as a reduction to the related expenses. The Company's received government assistance in the form of grants as noted in Note 13.

3. Significant Accounting Policies (continued)

Impairment of non-financial assets

The carrying amount of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit" or "CGU").

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

Share-based compensation

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is applied to contributed surplus. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

Equity

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects. When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a deduction from total equity.

The Company has adopted a residual method with respect to the measurement of common shares and warrants issued as private placement units. Warrants attached to units are valued based on the fair value of the warrants using the Black-Scholes option pricing model and the share price at the time of financing, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares. The proceeds from the issue of units are allocated between share capital and warrants.

3. Significant Accounting Policies (continued)

Income taxes

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

Financial instruments

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 FVTPL

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 during the period in which the change occurs. Realized and unrealized gains or losses resulting from assts held at FVPTL are included in the consolidated statements of operations and comprehensive losses in the period in which they relate to.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets at FVTOCI

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 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 loss and is not recycled to the consolidated statement of operations.

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. A provision is recorded based on the expected credit losses for the financial asset and reflects changes in the expected credit losses at the end of each reporting period.

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 has made the following classifications:

Financial instrument	Classification
Cash	FVTPL
Trade and other payables	Other financial liabilities
Loans payable	Other financial liabilities

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 consolidated 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); and

3. Significant Accounting Policies (continued)

Fair value hierarchy (continued)

- 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 are recorded at fair value on the consolidated statements 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.

Future Accounting Pronouncements

The accounting pronouncements detailed in this note have been issued but are not yet effective. The Company does not expect the impact of applying these standards to be significant on its consolidated financial statements.

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The International Accounting Standards Board ("IASB") has published *Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)* which clarifies the guidance on whether a liability should be classified as either current or non-current. The amendments:

- clarify that the classification of liabilities as current or non-current should only be based on rights that are in place "at the end of the reporting period";
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement includes transfers to the counterparty of cash, equity instruments, other assets or services that result in extinguishment of the liability.

This amendment is effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

Amendments to IFRS 16, Leases – COVID-19-Related Rent Concessions

In May 2020, the IASB published COVID-19-Related Rent Concessions, which amends IFRS 16, Leases, to provide lessees with a practical expedient that relieves lessees from assessing whether a COVID-19-related rent concession is a lease modification. COVID-19-related rent concessions qualify for the practical expedient if there was a decrease in lease consideration, reduction of lease payments that affected payments originally due on or before June 30, 2021, and no substantive changes to other terms and conditions of the lease. The amendment became effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted.

The Company has applied the practical expedient for the annual period ending January 30, 2021 and has recorded any eligible change in lease payments resulting from COVID-19-related rent concessions in the consolidated statement of operations and comprehensive loss, at the later of the date on which the rent concession arrangement is executed and the period to which the rent concession relates.

(Expressed in Canadian Dollars)

4. Reverse Takeover of Spyder Vapes

On May 31, 2019, the Company completed the acquisition of all of the issued and outstanding common shares of Spyder Vapes pursuant to the RTO as disclosed in Note 1. These consolidated financial statements represent a continuation of Spyder Vapes and not those of the Company prior to the completion of the RTO.

The transaction constituted a RTO of the Company as the shareholders of Spyder Vapes obtained control of the Company which did not meet the definition of a business combination pursuant to IFRS 3 ("IFRS 3"), Business Combinations. As such, the RTO has been accounted for as a share-based transaction under IFRS 2 ("IFRS 2"), *Share-based Payment*. Since Spyder Vapes is the deemed acquirer for accounting purposes, these consolidated financial statements present the historical information and results of Spyder Vapes.

The accounting for the RTO resulted in the following:

i) The consolidated financial statements of the combined entity are issued under the Company as the legal parent but are considered to be a continuation of the financial results of Spyder Vapes.

ii) Since Spyder Vapes is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in these consolidated financial statements at their historical carrying values.

iii) Since the common shares allocated to the shareholders of the Company on closing of the RTO are 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 operations and comprehensive loss as a listing expense.

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

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

	$
Fair value of the common shares and options for the purchase of common shares issued at RTO date:	**753,352**
Identifiable assets acquired - May 31, 2019	
Cash	29,233
Accounts payable	(12,200)
	17,033
Unidentifiable assets acquired - May 31, 2019	
Listing expense	736,319
Total net identifiable assets and transaction costs	**736,319**

The Company incurred additional listing expenses of $249,100 pursuant to the RTO. The total listing expense incurred by the Company in relation to the RTO amounted to $985,419.

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 and judgements

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. Judgements are used in situations when there is a choice and/or assessment required by management. 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 and use of judgments are the following:

Inventory valuation

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 behavior, and fluctuations in inventory levels. The Company records a write-down to reflect management’s best estimate of the net realizable value of inventory based on the above factors.

Income taxes

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.

5. Use of Judgements and Estimates (continued)

Share-based compensation

Estimating fair value for granted stock options and warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Carrying values of tangible assets

The Company assesses the carrying value of its tangible assets annually or more frequently if warranted by a change in circumstances. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are charged against current net income (loss). Recoverability is dependent upon assumptions and judgements regarding market conditions, costs of operations and sustaining capital requirements. Other assumptions used in the calculation of recoverable amounts are discount rates, and future cash flows. A material change in the assumptions may significantly impact the potential impairment of these assets.

Leases

The Company estimates a 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 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). The assessment of a lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure our lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

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.

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.

Convertible debentures

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.

(Expressed in Canadian Dollars)

6. Inventory

As at January 31, 2021 and 2020, the Company's inventory was comprised only of finished goods which amounted to $171,300 (2020 - $151,845). Inventories recognized as an expense and included in cost of sales during the year ended January 31, 2021 amounted to $891,158 (2020 - $400,401).

7. Property and Equipment

Property and equipment are comprised of the following:

	Furniture and equipment	Computer equipment	Leasehold improvements	Website, signs and automobile	Total
	$	$	$	$	$
Cost					
As at January 31, 2019	**52,967**	**21,229**	**145,163**	**79,031**	**298,390**
Additions	28,598	1,060	154,600	6,548	190,806
Disposals	-	-	-	-	-
As at January 31, 2020	**81,565**	**22,289**	**299,763**	**85,579**	**489,196**
Additions	52,374	10,174	168,148	2,946	233,642
Disposals	(42,442)	(2,381)	(241,161)	(7,880)	(293,864)
As at January 31, 2021	**91,497**	**30,082**	**226,750**	**80,645**	**428,974**
Accumulated depreciation					
As at January 31, 2019	**22,086**	**13,703**	**70,374**	**55,755**	**161,918**
Depreciation	9,512	2,387	43,997	6,689	62,585
Disposals	-	-	-	-	-
As at January 31, 2020	**31,598**	**16,090**	**114,371**	**62,444**	**224,503**
Depreciation	23,868	5,122	73,838	10,147	112,975
Disposals	(20,841)	(2,381)	(96,555)	(7,880)	(127,657)
As at January 31, 2021	**34,625**	**18,831**	**91,654**	**64,711**	**209,821**
Net book value ($)					
As at January 31, 2020	49,967	6,199	185,392	23,135	264,693
As at January 31, 2021	**56,872**	**11,251**	**135,096**	**15,934**	**219,153**

During the year ended January 31, 2021, the Company recorded depreciation expense related to property and equipment in the amount of $112,975 (2020 - $62,585). During the year ended January 31, 2021, the Company recorded impairment expense related to the impairment of property and equipment in the amount of $166,207.

(Expressed in Canadian Dollars)

8. Right-of-use Assets

	$
As at January 31, 2019	**686,369**
Additions during the year	92,475
Depreciation during the year	(125,031)
As at January 31, 2021	**653,813**
Disposals during the year	(54,700)
Depreciation during the year	(129,137)
Net Book Value January 31, 2021	**469,976**

Leased properties are amortized over the terms of their respective leases.

9. Trade and Other Payables

Trades and other payables are comprised of the following:

	2021	2020
	$	$
Accounts payable and accrued liabilities	**637,580**	308,555
Salaries payable	**57,600**	38,000
Government remittances payable	**50,631**	3,465
	745,811	350,020

10. Loans Payable

	2021	2020
	$	$
Vehicle loan, payable in monthly installments of $550, non-interest bearing, matures on August 2021 and secured by related vehicle.	**3,854**	10,461
Government guaranteed bank loan, payable in monthly installments of $1,530, bearing interest at prime plus 3% per annum. Balance is secured by a general security agreement and guaranteed by 2 shareholders of the Company up to a maximum of 25% of the original amount advanced.	**38,507**	47,687
Loans payable, interest bearing at rates between 12% - 24% per annum, interest only payments, monthly, secured and due on demand.	**903,353**	489,734
	945,714	547,882
Less: current portion	**(925,567)**	(501,494)
Balance, January 31, 2021 and 2020	**20,147**	46,388

11. Government Loan

During the year ended January 31, 2021, the Company obtained a $300,000 loan under the Canada Emergency Business Account (the "CEBA Loan"). The CEBA Loan was granted in in the form of an interest-free revolving line of credit of which up to $300,000 may be drawn. On January 1, 2021, any balance remaining on the revolving line of credit automatically converted into a non-revolving term loan. Any outstanding balance on the CEBA Loan not repaid by January 1, 2023 is converted into an interest-bearing loan at a rate of 5% per annum. The CEBA Loan matures on December 31, 2025. If 2/3 (or $200,000) of the outstanding CEBA Loan is paid on or before December 31, 2022, the remaining 1/3 (or $100,000) will be forgiven. The Company expects to repay $200,000 of the outstanding CEBA Loan by December 31, 2022. The Company has discounted the CEBA Loan using a discount rate of 12% during the interest-free loan period, which is the Company's incremental borrowing rate. The difference between the amount received and the fair value of the CEBA Loan has been reflected as government assistance in the consolidated statement of operations and comprehensive loss. The fair value of the CEBA Loan at inception amounted to $157,514. The difference of $142,486 has been reflected as government assistance on the consolidated statement of operations and comprehensive loss.

As at January 31, 2021, the fair value of the CEBA Loan amounted to $159,119 (2020 - $Nil).

12. Development Permit

During the year ended January 31, 2020, the Company entered into a purchase agreement with an arm's length party to acquire an interest in a development permit (the "Development Permit"). The net costs incurred to acquire the Development Permit amounted to $163,833. The consideration was paid by an issuance of 3,000,000 common shares of the Company amounting to $175,000, net of cash recovery of $11,167. As at January 31, 2021, the Development Permit was deemed impaired by management and an impairment expense in the amount of $163,833 was recorded in the consolidated statements of operations and comprehensive loss.

13. Government Grants

The Canada Emergency Wage Subsidy ("CEWS") government program provides a wage subsidy of up to 75% for qualifying businesses. The purpose of the wage subsidy is to allow employers to re-hire workers that were previously laid off, and to continue to employ those who are already on payroll.

During the year ended January 31, 2021, the Company has received approximately $44,365 as a wage subsidy under this program. This has been recognized in the consolidated statements of operations and comprehensive loss as a reduction to the related expenses.

14. Lease Liabilities

As at January 31, 2021, the Company has entered into various lease agreements with payments 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 consolidated statements 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.

(Expressed in Canadian Dollars)

14. Lease Liabilities (continued)

The continuity of the lease liability from February 1, 2019 to January 31, 2021 is presented below:

	$
Balance, February 1, 2019	**686,369**
Additions during the year	92,475
Interest expense	90,497
Lease payments	(153,679)
As at January 31, 2020	**715,662**
Additions during the year	(54,698)
Interest expense	76,566
Lease payments	(127,655)
As at, January 31, 2021	**609,875**

Summary:

	2021	2020
	$	$
Current portion of lease liabilities	**57,569**	123,596
Non-current lease liabilities	**552,306**	592,066
Balance, January 31, 2021	**609,875**	715,662

15. Convertible Debentures

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

On May 31, 2019, the Company completed a non-brokered 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 arms-length parties. The convertible debentures are convertible into (“Units”) of the Company at a price of $0.15 per Unit. Each Unit consists of one common share and one-half of one common share purchase warrant. On May 31, 2019, the Units were converted into common shares and warrants of the Company at a price of $0.15 per common share. As these convertible debentures were immediately converted, there was no debt component separately presented on the statement of financial position.

The debt component of these convertible debentures was accreted using the effective interest rate method. For the year ended January 31, 2020, convertible debenture transactions were as follows:

	2020
	$
Opening balance	**1,170,988**
Issuance	**294,500**
Issuance expense	**(1,000)**
Accretion	**29,100**
Conversion to common shares	**(1,493,588)**
Ending Balance	**-**

There were no convertible debentures outstanding during the year ended January 31, 2021.

(Expressed in Canadian Dollars)

16. Share Capital

The Company is authorized to issue an unlimited number of common shares.

	#	$
Balance, January 31, 2019	**8,092,493**	**79,979**
Conversion of debentures	27,331,882	1,784,068
Common shares issued for RTO	4,514,000	677,100
Common shares issued for services	86,956	10,000
Balance outstanding at the date of the RTO	40,025,331	2,551,147
Common shares issued for Development Permit	3,000,000	175,000
Common shares issued for services	193,846	10,029
Balance, January 31, 2020	**43,219,177**	**2,736,176**
Common shares issued for the conversion of debt	3,000,000	150,000
Common shares issued for the conversion of accounts payable	872,000	43,600
Balance, January 31, 2021	**47,091,177**	**2,929,776**

During the year ended January 31, 2021, the Company had the following share capital transactions:

- On August 24, 2020, the Company issued 3,000,000 common shares at a price of $0.05 per common share to the Chief Financial Officer of the Company in settlement of a secured loan in the amount of $150,000; and
- On August 24, 2020, the Company issued 872,000 common shares at a price of $0.05 per common share to settle accounts payable from arms-length vendors in the amount of $43,600.

During the year ended January 31, 2020, the Company had the following share capital transactions:

- On May 31, 2019, the Company issued 420,000 common shares at a price of $0.10 per common share for cash proceeds of $42,000;
- On May 31, 2019, the Company issued 372,493 common shares at a price of $0.10 per share for $37,249 of finders fees;
- On May 31, 2019, the Company issued 1,963,333 common shares in exchange for the conversion of convertible debentures amounted to $293,500;
- On May 31, 2019, the Company issued 25,368,549 common shares in exchange for the conversion of certain convertible debentures amounting to $1,490,568;
- On August 29, 2019, the Company issued 3,000,000 common shares at a deemed price of $0.0583 for the purchase of the Development Permit *(Note 12)*; and
- On January 10, 2020, the Company issued 193,846 common shares at a price of $0.065 per common share in consideration for $12,600 for services provided by an investor relations firm.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series.

The preferred shares may be issued in one or more series and directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(Expressed in Canadian Dollars)

17. 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 3,993,837 common shares of the Company (the "Share Reserve"). Exercise or return of previously issued options to the Plan increases the number of options available for issue.

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.

Total stock-based compensation recorded during the year ended January 31, 2021 was $Nil (2020 - $Nil). A summary of the Company's stock options outstanding as at January 31, 2021 and 2020 are as follows:

	2021			2020		
	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Life Remaining (yrs)**	Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Life Remaining (yrs)
Balance, beginning of the year	**3,851,400**	**0.07**	**3.33**	3,300,000	0.05	3.03
Granted (expired)	-	-		551,400	0.1	5.16
Balance, end of the year	3,851,400	0.07	2.33	3,851,400	0.07	3.33
Exercisable, end of the year	**3,851,400**	**0.07**	**2.33**	3,851,400	0.07	3.33

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price
Dec. 2, 2014	Dec. 2, 2024	551,400	551,400	$0.10
Sep. 1, 2017	Sep. 1, 2022	2,000,000	2,000,000	$0.05
Sep. 4, 2018	Sep. 4, 2023	200,000	200,000	$0.10
Oct. 10, 2018	Oct. 10, 2023	500,000	500,000	$0.10
Nov. 1, 2018	Nov. 1, 2023	600,000	600,000	$0.10

As at January 31, 2021, 3,851,400 (2020 - 3,851,400) outstanding options were fully vested.

(Expressed in Canadian Dollars)

18. Warrants

In May 2019 and in connection with the $1,963,333 debenture issuance, the Company issued 981,668 share purchase 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 finders' 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, 2021 and 2020 are as follows:

	2021			2020		
	Options Outstanding	Weighted Average Exercise Price	Weighted Average Life Remaining (yrs)	Options Outstanding	Weighted Average Exercise Price ($)	Weighted Average Life Remaining (yrs)
Balance, beginning of the year	**1,379,828**	**0.1**	**0.83**	387,493	0.1	0.83
Granted (expired)	(387,493)	0.1	1.3	992,335	0.3	1.3
Balance, end of the year	992,335	0.3	0.3	1,379,828	0.24	1.16
Exercisable, end of the year	**992,335**	**0.3**	**0.3**	1,379,828	0.1	1.16

19. General and Administrative Expenses

General and administrative expenses are comprised of the following:

	2021	2020
	$	$
Salaries and wages	**301,775**	427,015
Professional fees	**264,057**	318,232
Depreciation of right-of-use assets	**129,137**	125,033
Depreciation	**112,975**	62,585
Rent and utilities	**208,464**	130,374
Office and general	**193,704**	104,307
Insurance	**40,819**	14,202
Telephone, website and internet	**37,407**	34,971
Bank charges	**24,700**	17,984
Marketing	-	126,065
Lease termination	-	13,617
	1,313,038	1,376,405

(Expressed in Canadian Dollars)

20. Finance Charges

Finance charges are comprised of the following:

	2021	2020
	$	$
Interest on loans payable	**115,821**	23,916
Interest on lease liabilities	**76,566**	76,566
Accretion	**1,605**	29,100
Interest on convertible debentures	**-**	44,291
	193,992	173,873

21. Income Taxes

a) Income tax expense:

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in the consolidated financial statements:

	2021	2020
	$	$
Loss before income taxes	**(1,309,618)**	(2,179,169)
Statutory income tax rate	**26.50%**	26.50%
Expected income taxes recovery at statutory income tax rate	**(347,049)**	(577,480)
Changes in income taxes resulting from:		
Temporary tax differences and others	**14,252**	107,692
Change in income tax rate	**-**	(81,540)
Deferred tax assets not recognized	**332,797**	551,328
Provision for income taxes (recovery)	**-**	-

b) Deferred income taxes:

The tax effects of temporary differences that give rise to the deferred income tax assets and liabilities are as follows:

	2021	2020
	$	$
Non-capital losses	**826,000**	485,000
Financing costs	**40,800**	55,200
Property and equipment	**60,200**	27,000
Right of use assets and lease liabilities, net	**37,100**	16,400
Less: Unrecognized deferred tax assets	**(964,100)**	(583,600)
Total	-	-

The Company has capital losses carried forward of approximately $3,117,000 which will begin to expire in 2035.

22. 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.

23. 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.

Credit risk

The Company is exposed to credit risk on its cash balance which is held with reputable financial institutions. As at January 31, 2021, management considered the Company's credit risk in relation to such financial assets to be low.

(Expressed in Canadian Dollars)

23. Financial Management and Risk Assessment (continued)

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.

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 31, 2021	1 year $	2 to 5 years $	>5 years $	Total $
Trade and other payables	745,811	-	-	745,811
Loans payable	925,567	220,147	-	1,145,714
	1,671,378	**220,147**	**-**	**1,891,525**

January 31, 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**

24. 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 during the years ended January 31, 2021 and 2020 is as follows:

	2021 **$**	2020 $
Stock-based compensation	**-**	18,366
Salaries and other short-term employee benefits	**57,140**	62,400

(Expressed in Canadian Dollars)

24. Related Party Transactions (continued)

During the year ended January 31, 2021 and 2020, the Company had the following related party transactions and balances in the normal course of business:

a. During the year ended January 31, 2021, the Company accrued professional and consulting fees in the amount of $40,000 (2020 - $60,000) to Peldren Holdings Inc., a company controlled by the Chief Financial Officer.

b. Included in loans payable (Note 10), the following amounts were due to related parties:

   i. $67,200, comprised of $60,000 of loans payable and $7,200 of interest payable, owing to Peldren Holdings Inc., a company controlled by the CFO of the Company;

   ii. $22,400, comprised of $20,000 of loans payable and $2,400 of interest payable, owed to Daniel Pelchovitz, the CEO of the Company;

   iii. $239,834, comprised of $204,786 of loans payable and $35,048 of interest payable, owed to Mark Pelchovitz, CFO of the Company; and

   iv. $24,792, comprised of $22,350 of loans payable and $2,442 of interest payable, owed to the spouse of the CFO of the Company.

c. Included in accounts payable (Note 9), the following amounts were due to related parties:

   i. $45,200 of management fees payable to Peldren Holdings Inc., a company controlled by the CFO of the Company;

   ii. $34,260 of wages payable owing to Daniel Pelchovitz, the CEO of the Company; and

   iii. $23,340 of wages payable owing to the spouse of the CFO of the Company.

25. Comparative Amounts

Certain comparative figures have been reclassified to conform to the consolidated financial statement presentation adopted for the current period. Such reclassifications did not have an impact on previously reported net and comprehensive loss.

26. 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 as at January 31, 2021 are as follows:

One year	$171,048
Between two to five years	$542,031
More than five years	$298,124

27. Subsequent Events

Acquisition of 180 Smoke

On March 30, 2021, the Company acquired all of the issued and outstanding common shares of the entities that collectively comprise the business of 180 Smoke (the "Acquisition"), a dominant vape retailer in Canada, namely: (i) 2360149 Ontario Inc. d/b/a 180 Smoke and its wholly-owned subsidiaries 420 Wellness Inc. and 180 Smoke LLC; (ii) 180 VFC Inc.; and (iii) 2488004 Ontario Inc. The Acquisition was completed with an arm's length party on a cash-free basis (after post-closing adjustments), for nominal consideration of $1.

Financing

On April 1, 2021, the Company completed a non-brokered private placement through the issuance of 14,814,815 units ("Units") of the Company, at a price of $0.0675 per Unit, for total gross proceeds of approximately $1,000,000. Each Unit consisted of one common share of the Company and one common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.135 per common share at any time prior to the earlier of: (i) April 1, 2023; or (ii) in the event that the closing price of the Company's common shares on the TSX-V is at least $0.20 for a minimum of 10 consecutive trading days, the Company may provide written notice to the holders of the Warrants requiring them to exercise such Warrants within 30 days following the date of issuance of such written notice.

Option Exercises

On February 17, 2021, and in connection with options previously issued options for the purchase of 175,000 common shares of the Company were exercised at a price of $0.10 per common share for total gross proceeds of $17,500.

On May 17, 2021, and in connection with options previously issued options for the purchase of 2,000,000 common shares of the Company were exercised at a price of $0.05 per common share for total gross proceeds of $100,000.

Option Grants

On May 21, 2021, the Company granted and issued stock options for the purchase of up to 2,575,000 common shares of the Company to certain Company's employees, officers and directors. These stock options are exercisable for a period of four years from the date of issuance with an exercise price of $0.10 per common share.

Debt Settlement

On March 16, 2021, the Company completed a debt settlement transaction (the "Transaction"), pursuant to which the Company issued, to certain creditors of the Company, an aggregate of 9,966,666 common shares of the Company at a deemed price of $0.03 per common share, in settlement of an aggregate of $299,000 in indebtedness of the Company.