Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Spyder Cannabis Inc. (“**Spyder**” or the “**Corporation**”)
312 Meridian Rd. NE Unit B/C
Calgary, Alberta, T2A 2N6

1.2 Executive Officer

Cameron Wickham
Chief Executive Officer, Corporate Secretary and Director
Phone: 888-504-7737

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On March 30, 2021, the Corporation acquired all of the issued and outstanding shares of the entities that collectively comprise the business of 180 Smoke (collectively, the "**180 Smoke Entities**"), a vape retailer in Canada, namely: (i) 2360149 Ontario Inc., (ii) 180 VFC Inc., and (iii) 2488004 Ontario Inc., from CRHC Holdings Corp. (the "**Seller**"), on a cash-free basis (after post-closing adjustments), for nominal consideration of $1 (the "**Acquisition**").

The 180 Smoke Entities are a leading Canadian vape product retailer that sell high-quality e-cigarettes, vaporizers and other nicotine-related products.

2.2 Acquisition Date

March 30, 2021.

2.3 Consideration

In accordance with the terms and conditions of a share purchase agreement (the “**Share Purchase Agreement**”) dated February 22, 2021, the Corporation acquired all of the issued and outstanding shares of the 180 Smoke Entities on a cash-free basis (after post-closing adjustments), for nominal consideration of $1.

In connection with the Acquisition, Spyder completed a non-brokered private placement offering (the "**Offering**") consisting of 14,814,814 units of the Corporation (the "**Units**") at a price of $0.0675 per Unit for aggregate gross proceeds of approximately $1,000,000. Each Unit was comprised of one common share of the Corporation (a "**Share**") and one Share purchase warrant (a "**Warrant**"), with each Warrant exercisable to acquire one Share at a price of $0.135 per Share for a period of twenty-four months following the closing date of the Offering. The proceeds derived from the Offering were to be largely used for general and administrative expenses relating to the business of the 180 Smoke Entities, debt repayment and general working capital.

2.4 Effect on Financial Position

Upon completion of the Acquisition, the 180 Smoke Entities became wholly-owned subsidiaries of the Corporation. The business and operations of the 180 Smoke Entities have been combined with those of the Corporation and are managed concurrently.

The Corporation does not have any plans or proposals for material changes in its business affairs, or the affairs of the acquired business which may have a significant effect on the financial performance or position of the Corporation, including any proposal to liquidate the business of the 180 Smoke Entities, to sell, lease or exchange all or a substantial part of its assets, to amalgamate the business organization or to make any other material changes.

2.5 Prior Valuations

Not applicable.

2.6 Parties to Transaction

The Acquisition was not with an "informed person" (as such term is defined in Section 1.1 of National Instrument 51-102 – *Continuous Disclosure Obligations*), associate or affiliate of Spyder.

2.7 Date of Report

June 15, 2021.

Item 3 Financial Statements and Other Information

The audited combined annual financial statements of the 180 Smoke Entities and related notes thereto as of and for the year ended December 31, 2020 (the "**180 Smoke Annual Financial Statements**") are attached hereto as Schedule "A".

SCHEDULE “A”

180 SMOKE ANNUAL FINANCIAL STATEMENTS

(See attached)

180 Smoke

Combined Financial Statements

For the Years Ended December 31, 2020 and 2019

(Expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of

180 Smoke and subsidiary

Opinion

We have audited the accompanying combined financial statements of 180 Smoke (the "Company"), which comprise the combined statements of financial position as at December 31, 2020, and the combined statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and notes to the combined financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of 180 Smoke as at December 31, 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the combined 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

The accompanying combined financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the combined financial statements, the Company has significant economic dependence on a related party, which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 2. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

The combined financial statements of the Company for the year ended December 31, 2019 were audited by another auditor who expressed an unqualified opinion on those statements on August 20, 2020.

Responsibilities of Management and Those Charged with Governance for the Combined Financial Statements

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

In preparing the combined 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.

KRESTON GTA

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 it 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 combined 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Julia Zhou.

Kreston GTA LLP

Chartered Professional Accountants
Markham, Canada
June 14, 2021

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180 Smoke

Combined Statements of Financial Position

(Expressed in Canadian dollars)
As at December 31, 2020 and 2019

	Note	2020	2019
	#	$	$
ASSETS			
Current			
Cash and cash equivalents		**1,046,151**	539,966
Trade receivables	10	**388,439**	736,852
Income taxes recoverable	9	**28,474**	38,414
Inventory	11	**1,334,365**	1,910,291
Prepaid expenses and deposits	12	**177,934**	321,388
Total current assets		**2,975,363**	3,546,911
Property and equipment	13	**1,073,931**	1,060,764
Intangible assets	15	**485,983**	494,249
Right-of-use assets	14	**6,104,827**	7,161,204
Total assets		**10,640,104**	12,263,128
LIABILITIES			
Current			
Accounts payable and accrued liabilities	16	**1,242,820**	1,178,594
Provisions	19	**-**	27,696
Contract liability	17	**164,318**	148,294
Lease liabilities	18	**849,447**	671,514
Long-term debt	20	**11,668,357**	9,723,373
Total current liabilities		**13,924,942**	11,749,471
Contract liability	17	**142,608**	164,148
Lease liabilities	18	**5,923,921**	6,740,855
Total liabilities		**19,991,471**	18,654,474
SHAREHOLDER'S DEFICIENCY			
Share capital	21	**567,388**	567,388
Deficit		**(9,918,755)**	(6,958,734)
Total shareholder's deficiency		**(9,351,367)**	(6,391,346)
Total liabilities and shareholder's deficiency		**10,640,104**	12,263,128

Nature of Operations *(Note 1)*
Going Concern *(Note 2)*
Commitments *(Note 27)*
Subsequent Events *(Note 29)*

The accompanying notes are an integral part of these combined financial statements

180 Smoke

Combined Statements of Operations and Comprehensive Loss
(Expressed in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

	Note #	2020 $	2019 $
Revenue	**4**	**12,955,864**	13,643,960
Cost of goods sold	**11**	**6,249,421**	7,203,229
Gross profit		**6,706,443**	6,440,731
Selling, general, and administrative expenses	**6**	**9,510,206**	11,597,594
Net loss before other expense, finance cost and taxes		**(2,803,763)**	(5,156,863)
Other (income) expense, net	**7**	**(832,947)**	78,450
Net loss before finance cost and taxes		**(1,970,816)**	(5,235,313)
Finance cost	**8**	**976,324**	1,129,217
Net loss before taxes		**(2,947,140)**	(6,364,530)
Deferred income tax expense (recovery)		**-**	-
Current income tax expense (recovery)	**9**	**12,881**	(2,898)
Total income tax		**12,881**	(2,898)
Net loss and comprehensive loss		**(2,960,021)**	(6,361,632)

The accompanying notes are an integral part of these combined financial statements

180 Smoke

Combined Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

	Common Shares		Contributed Surplus				
Note:	**21**	**21**	**21, 23**	**22, 23**			
	# Shares Outstanding	**Share Capital**	**Warrants**	**Stock options**	**Total**	**Deficit**	**Total Equity**
Balance as at December 31, 2018	**103,333,333**	**$ 627,024**	**$ 167,799**	**$ 182,689**	**$ 350,488**	**$ (1,127,425)**	**$ (149,913)**
Net loss for the year	-	-	-	-	-	(6,361,632)	(6,361,632)
Common shares issued	620,857	39,136	-	-	-	-	39,136
Share-based payments	-	-	-	270,288	270,288	-	270,288
Cash settlement of cancelled stock option plan	-	-	-	(90,453)	(90,453)	-	(90,453)
Expired options	-	-	-	(362,524)	(362,524)	362,524	-
Expired warrants transferred to deficit	-	-	(176,578)	-	(176,578)	176,578	-
Transaction costs - warrants transferred to deficit	-	(98,772)	8,779	-	8,779	(8,779)	(98,772)
Balance as at December 31, 2019	**103,954,190**	**$ 567,388**	**$ -**	**$ -**	**$ -**	**$ (6,958,734)**	**$ (6,391,346)**
Net loss for the year	-	-	-	-	-	(2,960,021)	(2,960,021)
Balance as at December 31, 2020	**103,954,190**	**$ 567,388**	**$ -**	**$ -**	**$ -**	**$ (9,918,755)**	**$ (9,351,367)**

The accompanying notes are an integral part of these combined financial statements

180 Smoke

Combined Statements of Cash Flows

(Expressed in Canadian dollars)

For the Years Ended December 31, 2020 and 2019

	2020	2019
	$	$
Operating activities		
Net loss for the year	**(2,960,021)**	(6,361,632)
Adjusted for non-cash items:		
Share-based payments	**202,493**	270,288
Depreciation of property and equipment	**223,381**	183,674
Amortization of intangible assets	**37,779**	60,542
Amortization of right-of-use assets	**1,095,416**	898,518
Finance cost	**976,324**	1,129,217
Provision for bad debt	**18,378**	(120,501)
Loss on disposal of assets	**36,421**	(30,461)
Loss on lease modification	**4,046**	-
Loss on lease termination	**10,868**	-
Provision of obsolete inventories	**3,741**	-
Foreign exchange fluctuations	**(39,457)**	1,382
Interest paid	**-**	(1,561)
Changes in non-cash working capital items:		
Decrease/(increase) in trade receivables	**330,035**	(424,710)
Decrease/(increase) in inventory	**572,185**	(38,414)
Decrease/(increase) in income tax receivables	**9,940**	(43,937)
Decrease in prepaid expenses and deposits	**143,454**	26,830
Increase in trade payables, other payable and accruals	**64,226**	310,355
Decrease in income tax payables	**-**	(3,374)
(Decrease)/increase in provision	**(27,696)**	100,642
Decrease in contract liabilities	**(5,516)**	-
Decrease in deferred lease liabilities	**-**	(148,360)
Cash provided by (used in) operating activities	**695,997**	(4,191,502)
Investing activities		
Proceeds from sale of property and equipment	**-**	170,487
Non-refundable deposit paid	**(12,924)**	-
Purchase of property and equipment	**(272,969)**	(683,984)
Purchase of intangible assets	**(29,513)**	(319,171)
Cash used in investing activities	**(315,406)**	(832,668)
Financing activities		
Cash settlement of cancelled stock option plan	**-**	(90,453)
Proceeds from common shares issued with long-term debt	**-**	39,136
Restricted stock units granted by parent	**-**	75,277
Transaction cost paid by parent	**-**	(98,772)
Drawdown on debt	**1,950,916**	8,030,533
Repayment of long-term debt	**(300,000)**	(1,589,445)
Management fees	**-**	155,750
Repayment of principal portion of lease liabilities	**(1,570,814)**	(1,410,380)
Cash provided by financing activities	**80,102**	5,111,646
Exchange reallignment	**45,492**	(3,934)
Net increase in cash and cash equivalents	**506,185**	83,542
Cash and cash equivalents, beginning of year	**539,966**	456,424
Cash and cash equivalents, end of year	**1,046,151**	539,966

The accompanying notes are an integral part of these combined financial statements

1. Nature of Operations

These combined financial statements consist of 1) 2360149 Ontario Inc., 2) 2488004 Ontario Inc., and 3) 180 VFC Inc. (together referred to as "180 Smoke" or the "Company"). 2360149 Ontario Inc. wholly owned subsidiaries are 420 Wellness Inc. and 180 Smoke LLC. The Company's head office address is 7941 Jane Street, Unite 2, Concord, ON, L4K 2M7.

180 Smoke is a Canadian Vape product retailer that sells Vape and nicotine-related products, herbal vaporizer products and parts.

On February 19, 2019, the Company was acquired by CannaRoyalty Corp. for consideration of $25 million, plus up to $15 million upon the successful completion of certain milestones by December 31, 2020. On October 22, 2018, CannaRoyalty Corp. changed the registered name of its business to Origin House. Effective February 19, 2019, Origin House became the Company's ultimate parent company.

On January 7, 2020, Cresco Labs Inc. acquired all of the outstanding common shares of Origin House.

On March 30, 2021, Spyder Cannabis Inc. acquired all of the issued and outstanding common shares of the entities that collectively comprise the business of 180 Smoke (the "Acquisition"), The Acquisition was completed with an arm's length party for nominal consideration of $1.

2. IFRS presentation and accounting policies

2.1 Basis of preparation, statement of compliance and going concern

These combined financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

These combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and in effect on the closing date of December 31, 2020.

These combined financial statements of the Company are expressed in Canadian dollars. The financial statements of the individual Company's are prepared as of the closing date of the Company's financial statements. Certain items within the financial statements are combined for the sake of clarity. These are explained within the notes. The combined financial statements include the companies described in Note 1. All intercompany accounts and transactions have been eliminated upon the combination of the entities.

Going concern

These combined financial statements are 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. As at December 31, 2020, the Company had not yet achieved profitable operations and had a deficit of $9,918,755 (December 31, 2019 - $6,958,734), and had a net loss for the year ended December 31, 2020 in the amount of $2,960,021 (December 31, 2019 - $6,361,632), all of which indicate the existence of a material uncertainty that casts substantial doubt upon the Company's ability to continue as a going concern. The Company's ability to continue its operations and realize its assets at their carrying values and discharge its liabilities is dependent upon the continued financial support of its parent company and obtaining the necessary financing from other sources and/or generating positive cash flows from its operating activities. The success of the Company's endeavors cannot be predicted at this time. There is no assurance that the Company will be able to obtain adequate financing in the future.

Management has started multiple initiatives to continue as a going concern. The Company has pivoted towards high margin activities such as, e-commerce, in-house juice development, and partnership marketing efforts. Lastly, management has been reducing operational costs such as, ERP support, optimizing employee headcount, and store opening rationalization. Further, first-time implementation costs were incurred in 2019 and 2020 due to the system migration to implement polices and procedures to help ensure the Company's expansion plans are sustainable. These initiatives are intended to shift towards a positive cash flow from its operating activities.

Realization values of the Company's assets may be substantially different from carrying values as shown in these combined financial statements which do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

2.2 Summary of significant accounting policies

The combined financial statements have been prepared in accordance with IFRS and reflect the following significant accounting policies:

(A) Basis of combination

The combined financial statements comprise the financial statements of the following companies which are subject to common control:

- 2360149 Ontario Inc. (and its subsidiaries consolidated);
- 2488004 Ontario Inc.; and
- 180 VFC Inc. (hereafter referred to as "180 Smoke" or the "Company").

2360149 Ontario Inc.'s wholly own subsidiaries are 420 Wellness Inc. and 180 Smoke LLC.

On February 19, 2019, the Company was acquired by CannaRoyalty Corp. for consideration of $25 million, plus up to $15 million upon the successful completion of certain milestones by December 31, 2020. On October 22, 2018, CannaRoyalty changed the registered name of its business to Origin House. Effective February 19, 2019, Origin House became the Company's ultimate parent company. On January 8, 2020, $8,333,333 was paid to previous ownership of the Company in the form of Origin House shares and immediately converted to Cresco shares.

On January 7, 2020, Origin House and Cresco Labs Inc. announced an agreement under which Cresco Labs Inc. acquired all of the outstanding common shares of Origin House, as referenced in Cresco Labs Inc.'s news release dated January 8, 2020, which resulted in Cresco Labs becoming the ultimate parent of the Company as of that date.

The financial statements of the subsidiaries and combined entities are prepared for the same reporting periods as the parent company using consistent accounting policies. All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions, if any, are eliminated in full upon combination of the entities.

(B) Foreign currency translation

The Company's combined financial statements are presented in Canadian dollars. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The functional currencies of the entities are as follows:

Entity	**Functional Currency**	**Incorporation**	**Date of Incorporation**
2360149 Ontario Inc.	Canadian dollar	Ontario, Canada	4 February 2013
2488004 Ontario Inc.	Canadian dollar	Ontario, Canada	21 October 2015
180 VFC Inc.	Canadian dollar	Ontario, Canada	6 January 2017
180 Smoke LLC	Canadian dollar	Delaware, USA	4 February 2013
420 Wellness, Inc.	Canadian dollar	Alberta, Canada	9 March 2018

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Company's entities at their respective foreign currency exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. The foreign currency gain or loss resulting from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

(C) Revenue recognition

The Company is in the business of marketing and selling vaporizers, nicotine-related products, herbal vaporizer products, and parts.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 requires the Company to follow the 5-step approach to revenue recognition:

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

The Company recognizes revenue from the sale of products, rendering of services, and royalty agreements. Revenue is measured based on the consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. There are two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized.

Retail, online, and wholesale sales
Revenue from the sale of goods includes merchandise sold by 180 Smoke to the general public and other retailers. Revenue is recognized when control of the goods passes to customers. For retail customers, control passes upon point of sale, and for wholesale and online 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.

Customer loyalty programs
180 Smoke has a customer loyalty program. Loyalty reward credits issued as part of a sales transaction results in revenue being deferred until the loyalty reward is redeemed by the customer. In addition, the obligation is measured at fair value by reference to the fair value of the rewards for which they could be redeemed and based on the estimated probability of their redemption, which is measured based on monitoring historical redemption rates where applicable. Loyalty program costs are recorded as a reduction of revenue. Consideration is allocated between the loyalty program awards and the goods on which the awards were earned, based on their relative selling price/redemption price.

Royalties, service fees, and license fees
Royalty, service fee, and license fee revenues from franchisees of 180 Smoke are recognized as they are earned in accordance with the substance of the relevant agreement and are measured over a period of time.

As at the reporting periods, there are no unfulfilled performance obligations extending beyond a year for which the Company has not collected funds or deposits. In some cases, the Company has received monies in advance of satisfying its performance obligations which is recorded as deferred revenue.

The Company does not have contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year, and the intent of the arrangement is financing.

The Company's assurance warranty obligation is to provide an exchange or repair for faulty products under the standard warranty terms and conditions. The assurance warranty terms are recognized as a provision under IFRS 37 and not as a reduction of revenues under IFRS 15 as a performance obligation.

A receivable is recognized when the goods are delivered or services are rendered. This is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(D) Classification of assets and liabilities

The Company presents assets and liabilities in the combined statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as non-current. Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

(E) Income taxes

Income taxes
Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities as well as for the benefits of losses available to be carried forward for tax purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in statement of operations and comprehensive loss or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the anticipated amount that is probable to be realized as at the reporting date. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

IFRIC 23 - Uncertainty Over Income Tax Treatments
Management records uncertain tax positions as liabilities in accordance with IFRIC Interpretation 23 and adjust these liabilities when its judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from management's current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. As at December 31, 2020 and 2019, the Company did not record any uncertain tax positions in these combined financial statements.

Management recognizes interest and penalties related to unrecognized tax benefits on the income tax expense line in the accompanying combined statements of operations and comprehensive loss. As at December 31, 2020 and 2019, no accrued interest or penalties are included on the related tax liability line in these combined statements of financial position.

Sales tax
Revenues, expenses, liabilities, and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(F) Financial instruments – initial recognition and subsequent measurement
Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument.

Measurement
Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized cost or fair value through other comprehensive income (FVTOCI) are included with the carrying amount of such instruments. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as fair value through profit or loss (FVTPL) are recognized immediately in profit or loss within the combined statements of operations and comprehensive loss.

Financial Assets
The Company classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at amortized cost; and
- Those to be measured subsequently at fair value (either through other comprehensive income (FVTOCI) or through profit or loss (FVTPL)).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows. The contractual cash flows of the entity's financial assets and financial liabilities are solely payments of principal and interest and the business model is to hold the financial assets to collect their contractual cash flows, and are therefore classified as amortized cost.

Financial Assets at Amortized Cost
Financial assets that meet the following conditions are measured at amortized cost less impairment losses (if any):

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash-flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- The financial asset was not acquired principally for the purpose of selling in the near term or for short-term profit taking (held-for-trading).

Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCIL)
Assets are held within a business model that includes both hold to collect their contractual cash flow and sell the assets; and the contractual cash flows consist solely of payments of principal and interest. For debt instruments measured at FVTOCI, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses are recognized directly in profit or loss. The cumulative fair value gains or losses recognized in OCI are reclassified to profit or loss when the asset is derecognized.

Financial Assets at Fair Value Through Profit or Loss (FVTPL)
Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. A gain or loss on a financial asset measured at FVTPL that is not part of a hedging relationship is recognized in profit and loss and presented on a net basis in the period in which it arises.

The method of measurement of investments in debt instruments will depend on the business model in which the instrument is held. For investments in equity instruments, it will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income (FVTOCI).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Equity instruments
On the date of acquisition of an equity instrument, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate the equity instruments at fair value through other comprehensive income (loss).

The Company subsequently measures all equity instruments at fair value. Where the Company's management has elected to present fair value gains and losses on equity instruments in other comprehensive income (loss) and accumulated in an equity reserve, there is no subsequent reclassification of fair value gains and losses to profit or loss. Instead, upon disposal of the equity instrument, any balance within the OCI reserve is reclassified to deficit. Dividends from such instruments continue to be recognized in profit or loss as other income when the Company's right to receive payments is established. Designation at FVTOCI is not permitted if the equity instrument is held-for-trading.

Impairment losses (and reversal of impairment losses) on equity instruments measured at FVTOCI are not reported separately from other changes in fair value.

Financial Liabilities
Financial liabilities are classified as FVTPL when the financial liability is either held-for-trading or is designated at FVTPL. Financial liabilities at FVTPL are remeasured in subsequent reporting periods at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognized in profit or loss within the combined statements of comprehensive income (loss). Such gains or losses recognized in profit or loss include any interest paid on the financial liabilities.

Financial liabilities that are not held-for-trading and are not designated as FVTPL are measured at amortized cost. The carrying amounts of financial liabilities that are measured at amortized cost are determined based on the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability (or financial asset) and of allocating interest expense (or income) over the expected life of the financial liability (or financial asset).

Impairment
The Company assesses on a forward-looking basis the expected credit losses associated with its assets carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the Company applies the

simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Embedded derivatives
IFRS 9 requires that under certain conditions, an embedded derivative is separated from its host contract and accounted for as a derivative or the entire contract is to be measured at FVTPL. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a special interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

(G) Compound instruments
The component parts of compound instruments (e.g., debt issued with warrants and/or common shares) issued by the Company are classified separately as financial liabilities and equity or derivative liability in accordance with the substance of the contractual arrangements. The attached warrants are presumed to be classified as a derivative financial liability unless it meets all the criteria to recognize as equity instrument under IAS 32, Financial Instruments: Presentation. One of the criteria is that the warrants exchange a fixed amount of shares for a fixed amount of cash ("fixed for fixed"). At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without warrants or common shares. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date.

The warrants and/or common shares classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity and is not subsequently remeasured. Options, and warrants classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the options or warrants remain unexercised at their expiry date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in the statement of comprehensive income (loss) upon conversion or expiration of the options or warrants. Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

(H) Property and equipment
Assets under construction is stated at cost, net of accumulated impairment losses, if any. Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Repair and maintenance costs are recognized in profit or loss in the statement of operations and comprehensive loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use (if any) is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Furniture, fixtures, and machinery	10 years
Computer and office equipment	6 years
Vehicles	8 years
Leasehold improvements	Lesser of the lease term or useful life of the asset

Assets under construction do not begin to be depreciated until substantially complete and ready for productive use.

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized. The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

(I) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. The estimated useful life and amortization methods are reviewed at the end of each financial year, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use it or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. When no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. During the year ended December 31, 2020, capitalized development costs amounted to $29,513 (December 31, 2019 - $319,171).

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any) on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Intangible assets with finite useful lives are subject to amortization based on their estimated useful lives. The amortization method and estimate of the useful life is reviewed annually.

Intangible assets of the Company include the website and ERP software developed with future benefit of 10 years and thus are amortized over 10 years.

(J) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset or a group of assets called a cash generating unit ("CGU") may be impaired. If any indication exists, or when annual impairment testing for a CGU is required, the Company estimates the CGU's recoverable amount. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. 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 CGU. In determining fair value less costs of disposal, an appropriate valuation model is used.

Impairment losses, if any, of continuing operations are recognized in profit or loss in the statement of comprehensive income (loss) in those expense categories consistent with the function and nature of the impaired asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the non-financial asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the non-financial asset in prior years. Such reversal is recognized in the statement of operations and comprehensive loss.

(K) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with original terms to maturity of three months or less. The Company uses the indirect method of reporting cash flow from operating activities. As at December 31, 2020 and 2019, the Company did not have any cash equivalents.

(L) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to complete the sale.

(M) 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 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, for example under an insurance contract, 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 profit or loss in the statement of comprehensive income (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 in the statement of profit or loss.

(N) Government grants and assistance

Government grants and assistance are recognized where there is reasonable assurance that the grant or assistance will be received and all attached conditions will be complied with. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. When government assistance is received which relates to expenses of future periods, the amount is deferred and amortized to income as the related expenditures are incurred.

(O) Share-based payment

The Company has a share-based compensation plan. The Company accounts for share-based payment options granted to management, employees, and consultants using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black Scholes valuation model. In accordance with the fair value method, the Company recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to the contributed surplus account. Consideration paid by employees on the exercise of share-based compensation awards is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital. 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 contributed surplus.

(P) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified; the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either: the Company has the right to operate the asset; or the Company designed the asset in a way that predetermines how and for what purpose it will be used.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the 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. The Company's incremental borrowing rate during the years ended December 31, 2020 and 2019 was 12.56%.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments (if any);
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (if any);
- amounts expected to be payable under a residual value guarantee (if any); and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early (if any).

The lease liability is measured at the present value of the lease payments at inception of a lease, discounted using the interest rate implicit in the lease terms. If that rate cannot be readily determined, the Company will use its incremental borrowing rate. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of operations and profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets outside of 'property and equipment' in its own category and lease liabilities separately in the statement of financial position.

Short-term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases with a term of 12 months or less and leases of low value assets. The Company recognizes the lease payments associated with these leases, if any, as an expense on a straight-line basis over the lease term.

Rental income

Rental income arising from the sublet of an operating lease is accounted for on a straight-line basis over the lease term and is included as an offset to rent expense in the statement of profit or loss due to its operating nature.

3. Significant accounting judgments, estimates, and assumptions

The preparation of the Company's combined financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The following are the critical judgements that the Company has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognized in the combined financial statements.

Fair value of financial instruments and share-based payments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk, and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(Expressed in Canadian Dollars)

Management made estimates on the fair value of long-term debt issued with warrants. The Company assessed the implied discount rate on certain debt to be 16.97% to 16.89%.

Management made estimates on the fair value of share-based payments, using various assumptions such as volatility, enterprise value, expected life and discount rates.

The following are other key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year or years.

Assessment of Revenues under IFRS 15
During the years ended December 31, 2020 and 2019, management assessed which contracts occur at a point in time, over a period of time, and based on usage and royalties. Judgment is required on revenues recorded over a period of time. Royalty, service fee, and license fee revenues from franchisees of 180 Smoke are recognized over a period of time as they are earned in accordance with the substance of the relevant agreement.

Assessment of Non-current Assets and Impairment under IAS 36
During the period, management considered the recoverability of the Company's non-current assets, consisting of intangible assets, property and equipment, and right-of-use assets. Management determined that the intangible assets and property and equipment were not impaired.

Useful Lives of Property and Equipment, Leases and Intangible Assets
Management reviewed the estimated useful lives of property and equipment, right-of-use assets, and intangible assets at the end of each reporting period. As at December 31, 2020 and 2019, the Company assessed that there was no change in useful lives of property and equipment, leases, and intangible assets.

Cash-generating Units
The grouping of Cash-generating Units (CGUs) requires the exercise of management judgement and could impact the results of impairment testing of the non-current assets in future periods. The Company's single CGU related to its retail operations. For the years ended December 31, 2020 and 2019, no impairment indicators were present and accordingly no impairment testing was conducted.

4. Operating segment information and revenue disclosures

The Company has assessed that it operates in only one operating segment. The chief operating decision maker is the CEO of the Company, who reviews, assesses, and allocates resources to the operations of the Company.

Additional disclosures as required under IFRS 15 for the year ended December 31, 2020 and 2019 are noted below. The Company determines the geographic location of revenues based on the location of its customers and generates revenue from its retail, wholesale, franchise and e-commerce operations.

		2020		**2019**
Canada	$	12,942,116	$	13,468,265
United States	$	13,748	$	175,695
Total Revenue	**$**	**$12,955,864**	**$**	**13,643,960**

		2020		**2019**
Retail	$	5,729,461	$	9,005,165
Wholesale	$	1,070,487	$	2,779,786
Franchise	$	1,307,288	$	130,422
E-commerce	$	4,848,628	$	1,728,587
Total Revenue	**$**	**12,955,864**	**$**	**13,643,960**

The Company records revenue over time for franchise licenses and advance payments for distribution services. All other revenues are recorded at a point in time.

		2020		**2019**
Revenue at a point in time	$	12,332,480	$	13,630,897
Revenue over time	$	623,384	$	13,063
Total Revenue	**$**	**12,955,864**	**$**	**13,643,960**

During the years ended December 31, 2020 and 2019, the Company did not have any major customers. The Company defines a major customer as sales exceeding 10% of total revenues to that single customer.

(Expressed in Canadian Dollars)

5. Government grants and government assistance

During the year ended December 31, 2020, the Company recorded investment tax credits of $nil (December 31, 2019 - $188,434). The investment tax credits recorded in 2019 were related to work performed in the 2017 and 2018 fiscal years and were recognized as revenue in the statement of operations and comprehensive loss when the realization of these investment tax credits was reasonably assured. These investment tax credits were earned as a result of qualifying Scientific Research and Experimental Development expenditures and were recognized when the realizing of the respective grant was reasonably assured. The investment tax credits receive relate to an expense item, and as a result are recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate.

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 December 31, 2020, the Company received $862,674 as a wage subsidy under this program.

6. Selling, general and administrative expenses

Selling, general and administrative expenses during the year ended December 31, 2020 and 2019 were comprised of the following:

	2020	2019
	$	$
Salaries, wages, and benefits	**4,460,539**	5,707,034
Delivery	**788,109**	429,955
Rent, net of sublease income	**686,449**	499,105
Subscriptions and fees	**469,481**	339,850
Professional fees	**383,527**	1,291,557
Office and general	**299,391**	434,932
Merchant fees	**212,025**	186,302
Share-based payments	**202,493**	345,565
Repairs and maintenance	**170,338**	111,621
Advertising and promotion	**168,329**	420,749
Utilities	**160,060**	192,599
Insurance	**109,642**	98,151
Travel	**38,168**	71,231
Bad debts	**18,378**	110,213
Meals and entertainment	**17,960**	28,391
Bank charges	**4,183**	18,184
Automotive	**4,015**	17,605
Foreign exchange gain	**(39,457)**	(3,934)
Management fees	**-**	155,750
Amortization - ROU	**1,095,416**	898,518
Amortization	**37,779**	60,542
Depreciation	**223,381**	183,674
	9,510,206	11,597,594

(Expressed in Canadian Dollars)

7. Other (income) expense, net

Other (income) expense, net during the year ended December 31, 2020 and 2019 were comprised of the following:

	2020	2019
	$	$
Government assistance	**(862,674)**	-
Proceeds on insurance claim	**(29,155)**	(28,358)
Loss on early termination of lease	**4,046**	107,577
Loss (gain) on asset disposal	**36,421**	(8,619)
(Gain) loss on sublease	**(4,692)**	(18,879)
Loss (gain) on lease modification	**15,560**	(53,629)
Royalty	**-**	78,687
Other	**7,547**	1,671
	(832,947)	78,450

8. Finance cost

Finance cost during the year ended December 31, 2020 and 2019 were comprised of the following:

	2020	2019
	$	$
Interest expense on leases	**884,749**	859,271
Interest accretion on long term debt	**86,169**	97,718
Amortization of transaction costs	**5,406**	17,889
Interest expense on long-term debt	**-**	1,561
Loss on derecognition of debt	**-**	152,778
	976,324	1,129,217

(Expressed in Canadian Dollars)

9. Income taxes

The major factors that cause the Company 's income tax rate to differ from the combined Canadian federal and provincial statutory rate of approximately 26.50% (2019 – 26.50%) are as follows:

	2020	2019
	$	$
Loss from operations	**(2,947,140)**	(6,364,530)
Combined federal and state level taxes	**26.50%**	26.50%
Expected income tax payable	**(780,992)**	(1,686,601)
Difference in tax rates	**1,001**	8,729
Tax rate changes and other adjustments	**—**	(8,265)
Share-based compensation	**53,661**	71,626
Other non-deductible expenses	**219,407**	(207,538)
Financing and share issuance costs	**(4,811)**	(26,175)
Unrecognized benefit of non-capital losses	**524,615**	1,845,326
Provision for income taxes (recovery)	**12,881**	(2,898)

Deferred tax

The following table summarizes the components of deferred tax:

Deferred tax assets	**2020**	2019
Convertible debenture	**-**	9,756
Share issuance costs	**15,705**	20,940
Property, plant and equipment	**(3,487)**	-
Reserves and accruals	**38,878**	38,878
Non-capital losses carried forward	**66,698**	38,067
Deferred tax liabilities		
Property, plant and equipment	**(3,487)**	-
Bad debt	**(10,382)**	(10,382)
Intangible assets	**(103,925)**	(97,259)
Net deferred tax liability	-	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

(Expressed in Canadian Dollars)

Unrecognized deferred tax assets
Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

As at:	**2020**	2019
Property, plant and equipment	**(13,157)**	-
Reserves and accruals	**146,709**	146,709
Non-capital losses carried forward - Canada	**7,482,000**	7,395,523
Non-capital losses carried forward - US	**241,000**	196,303

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred assets have not been recognized in respect of these temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

The Canadian non-capital losses are set to expire as follows:

	2020
2037	732,000
2038	4,848,000
2039	178,000
2040	1,724,000

As at December 31, 2020, the Company has accumulated non-capital tax loss carry forwards for income tax purposes of approximately $241,000 which may be applied against future United States federal and state taxable income. These losses may be carried forward indefinitely and are restricted to 80 percentage of taxable income per year.

10. Trade receivables

	2020	**2019**
Trade receivables	$ 406,817	$ 867,932
Allowance for expected credit losses	$ (18,378)	$ (131,080)
Total accounts receivable	**$ 388,439**	**$ 736,852**

Trade receivables are non-interest bearing and are generally on 30 to 60 day terms.

As at December 31, 2020, the Company has recognized a provision for expected credit losses in the amount of $18,378 (2019 - $131,080). The Company's policy for trades receivables over 120 days is to record a provision for credit loss amounting to 100%.

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision is based on the Company's historical collection and loss experience and incorporates forward-looking factors, where appropriate. The provision matrix below and aging analysis of trades receivable shows the excepted credit loss rate at each aging category of receivables.

(Expressed in Canadian Dollars)

December 31, 2020	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	60-120 days	Over 120 days
Expected Credit loss %	100%	37%	49%	13%	1%	0%
Gross carrying amount	$406,817	$148,513	$200,586	$52,639	$5,079	-
Lifetime expected credit loss	(18,378)	(6,709)	(9,062)	(2,378)	(229)	-
Net trade accounts receivable	**$388,439**	**$141,804**	**$191,524**	**$50,261**	**$4,850**	**-**

December 31, 2019	Total	Neither past due nor impaired	Past due but not impaired < 30 days	30-60 days	60-120 days	Over 120 days
Expected Credit loss %	15%	1%	4%	6%	4%	84%
Gross carrying amount	$867,932	$396,165	$172,381	$99,030	$69,276	$131,080
Lifetime expected credit loss	(131,080)	(5,941)	(6,931)	(5,955)	(2,755)	(109,498)
Net trade accounts receivable	**$736,852**	**$390,224**	**$165,450**	**$93,075**	**$66,521**	**$21,582**

11. Inventories and cost of goods sold

Inventory balances	**$**
Balance as at December 31, 2018	**1,937,121**
Inventory purchases	7,176,399
Cost of goods sold	(7,203,229)
Balance as at December 31, 2019	**1,910,291**
Inventory purchases	5,673,495
Cost of goods sold	(6,249,421)
Balance as at December 31, 2020	**1,334,365**

Inventory balances as at December 31, 2020 and 2019 were comprised of the following:

	2020	2019
	$	$
Raw materials	**121,017**	123,562
Work-in-progress	**3,427**	16,245
Finished goods	**1,209,921**	1,770,484
Total inventory balance at the lower of cost and net realizable value	**1,334,365**	1,910,291

(Expressed in Canadian Dollars)

12. Prepaid expenses and deposits

The balance of prepaid expenses and deposits are as follows:

	2020	2019
Rent deposits	$ 95,934	$ 216,607
Other prepaids	$ 82,000	$ 104,781
Total	**$ 177,934**	**$ 321,388**

Other prepaid expenses are made up of advances to suppliers, subscriptions, and security deposits.

13. Property and equipment

Property and equipment were comprised of the following:

	Furniture, fixtures, and machinery	Computer and office equipment	Vehicles	Leasehold Improvements	Asset under construction	Total
Cost:	**$**	**$**	**$**	**$**	**$**	**$**
As at January 1, 2019	**260,317**	**120,013**	**42,996**	**446,312**	**39,661**	**909,299**
Additions	254,130	3,268	-	292,713	133,873	**683,984**
Disposals	(94,518)	(3,714)	(42,996)	(6,130)	(48,331)	**(195,689)**
Transfer	-	-	-	125,203	(125,203)	**-**
As at December 31, 2019	**419,929**	**119,567**	**-**	**858,098**	**-**	**1,397,594**
Additions	71,772	-	-	124,919	76,278	**272,969**
Disposals	-	-	-	(50,646)	-	**(50,646)**
Transfer	-	-	-	48,578	(48,578)	**-**
As at December 31, 2020	**491,701**	**119,567**	**-**	**980,949**	**27,700**	**1,619,917**
Accumulated Depreciation:						
As at January 1, 2019	**(54,268)**	**(37,197)**	**(6,273)**	**(80,620)**	**-**	**(178,358)**
Depreciation	(43,054)	(20,480)	(5,375)	(114,765)	-	**(183,674)**
Disposals	9,537	1,293	11,648	2,724	-	**25,202**
As at December 31, 2019	**(87,785)**	**(56,384)**	**-**	**(192,661)**	**-**	**(336,830)**
Depreciation	(47,650)	(19,033)	-	(156,698)	-	**(223,381)**
Disposals	-	-	-	14,225	-	**14,225**
As at December 31, 2020	**(135,435)**	**(75,417)**	**-**	**(335,134)**	**-**	**(545,986)**
Carrying amount:						
As at December 31, 2019	**332,144**	**63,183**	**-**	**665,437**	**-**	**1,060,764**
As at December 31, 2020	**356,266**	**44,150**	**-**	**645,815**	**27,700**	**1,073,931**

(Expressed in Canadian Dollars)

14. Right-of-use asset

Right-of-use assets are comprised of the following:

	Retail locations $	Vehicles $	Total $
As at January 1, 2019	**6,892,835**	**23,290**	6,916,125
Additions – new lease contracts	1,325,171	25,240	1,350,411
Termination of the lease contract	(67,847)	-	(67,847)
Lease modification	(134,927)	-	(134,927)
Amortization	(892,018)	(6,500)	(898,518)
Foreign exchange loss	(4,040)	-	(4,040)
As at December 31, 2019	**7,119,174**	**42,030**	**7,161,204**
Additions – new lease contracts	169,688	-	169,688
Termination of the lease contract	(58,264)	(15,707)	(73,971)
Lease modification	(58,905)	-	(58,905)
Amortization	(1,089,285)	(6,131)	(1,095,416)
Foreign exchange gain	2,227	-	2,227
As at December 31, 2020	**6,084,635**	**20,192**	**6,104,827**

15. Intangible assets

Intangible assets are comprised of the following:

	Internally generated intangibles
Cost:	**$**
As at January 1, 2019	**255,560**
Additions	319,171
As at December 31, 2019	**574,731**
Additions	29,513
As at December 31, 2020	**604,244**
Accumulated Amortization:	
As at January 1, 2019	**(19,940)**
Amortization	(60,542)
As at December 31, 2019	**(80,482)**
Amortization	(37,779)
As at December 31, 2020	**(118,261)**
Carrying amount:	
As at December 31, 2019	**494,249**
As at December 31, 2020	**485,983**

(Expressed in Canadian Dollars)

16. Accounts payable and accrued liabilities

	2020	2019
	$	$
Trade payables	**848,769**	924,083
Employee payable	**312,105**	231,934
Sales tax payable	**81,946**	823
Other payable	**-**	21,754
	1,242,820	1,178,594

Trade payables are non-interest bearing and are normally settled on 30-day terms. Employee payables relate to earned vacation pay and unpaid wages.

17. Contract liability

Contract liability relates to deferred revenue consisting of loyalty programs, franchise fee revenue, and service fee revenue for the years ended December 31, 2020 and 2019:

	Loyalty programmes	Franchise revenue	Total
	$	$	$
Balance as at January 1, 2019	**177,112**	**34,688**	**211,800**
Advance payments received from customers	152,740	87,500	240,240
Performance obligations recognized in the year	(126,536)	(13,062)	(139,598)
Balance as at December 31, 2019	**203,316**	**109,126**	**312,442**
Advance payments received from customers	26,524	649,550	676,074
Performance obligations recognized in the year	(58,206)	(623,384)	(681,590)
Balance as at December 31, 2020	**171,634**	**135,292**	**306,926**

As at December 31, 2019	**Loyalty programmes**	**Franchise revenue**	**Total**
Current	$ 135,544	$ 12,750	$ 148,294
Non-current	$ 67,772	$ 96,376	$ 164,148
Total	**$ 203,316**	**$ 109,126**	**$ 312,442**

As at December 31, 2020	**Loyalty programmes**	**Franchise revenue**	**Total**
Current	$ 114,423	$ 49,895	$ 164,318
Non-current	$ 57,211	$ 85,397	$ 142,608
Total	**$ 171,634**	**$ 135,292**	**$ 306,926**

(Expressed in Canadian Dollars)

18. Lease liabilities

The lease liabilities are comprised of the following:

	Retail locations $	Vehicles $	Total $
As at January 1, 2019	**6,848,815**	**30,910**	**6,879,725**
Additions	1,300,286	23,295	1,323,581
Termination of the lease contract	858,257	1,014	859,271
Lease modification	(1,399,949)	(10,431)	(1,410,380)
Interest expenses	(98,308)	-	(98,308)
Cash outflow for lease liabilities	(139,208)	-	(139,208)
Foreign exchange gain	(2,312)	-	(2,312)
As at December 31, 2019	**7,367,581**	**44,788**	**7,412,369**
Additions	156,764	-	156,764
Termination of the lease contract	(53,864)	(16,061)	(69,925)
Lease modification	(48,037)	-	(48,037)
Interest expenses	884,749	785	885,534
Cash outflow for lease liabilities	(1,562,860)	(7,954)	(1,570,814)
Foreign exchange loss	7,477	-	7,477
As at December 31, 2020	**6,751,810**	**21,558**	**6,773,368**

	December 31, 2020 $	December 31, 2019 $
Lease liability – current	**849,447**	671,514
Lease liability – non-current	**5,923,921**	6,740,855
Total Lease liabilities	**6,773,368**	7,412,369

Operating lease commitments – Company as lessee

The schedules of undiscounted lease payments existing as at December 31, 2020 and December 31, 2019 are as follows:

		December 31, 2020		**December 31, 2019**
2020	$	-		1,542,869
2021		1,635,015		1,650,519
2022		1,573,781		1,582,266
2023		1,407,037		1,377,918
2024		1,254,340		1,180,224
2025		1,097,386		1,079,044
2026		1,076,898		1,076,898
2027		1,064,810		1,064,810
2028		870,925		870,925
2029		194,316		194,316
Total	**$**	**10,174,508**	**$**	**11,619,789**

(Expressed in Canadian Dollars)

19. Provisions

Provisions is comprised of the following:

	$
Balance as at January 1, 2019	**148,197**
Additions	27,696
Amounts used during the year	(148,197)
Balance as at December 31, 2019	**27,696**
Additions	-
Amounts used during the year	(27,696)
Balance as at December 31, 2020	**-**

On November 20, 2019, the Company signed an agreement with the landlord to surrender the lease, resulting in the derecognition of the provision and a gain on modification of $15,215 to the statement of operations and comprehensive loss.

20. Long-term debt

The Company's long-term debt consists of related party debt and third-party debt. The Company's related party debt is comprised of the below. The Company did not have any third-party debt outstanding as at December 31, 2020 and 2019. The full amount of long-term debt has been classified as current liability.

Related party debt

Reference:	*1*	*2*	*3*	*4*	*5*	**Total ($)**
Balance as at January 1, 2019	**100,000**	**242,995**	**658,399**	**710,029**	**1,000,000**	**2,711,423**
Drawdown on debt	-	-	-	-	8,030,533	8,030,533
RSUs granted by parent	-	-	-	-	75,277	75,277
Management fees	-	-	-	-	155,750	155,750
Amortization of transaction costs	-	-	-	17,889	-	17,889
Interest accretion	-	-	17,117	80,601	-	97,718
Loss on derecognition	-	-	74,484	78,294	-	152,778
Principal repaid	(100,000)	(242,995)	(750,000)	(425,000)	-	(1,517,995)
Balance as at December 31, 2019	**-**	**-**	**-**	**461,813**	**9,261,560**	**9,723,373**
Drawdown on debt	-	-	-	-	1,950,916	1,950,916
RSUs granted by parent	-	-	-	-	202,493	202,493
Amortization of transaction costs	-	-	-	5,406	-	5,406
Interest accretion	-	-	-	86,169	-	86,169
Principal repaid	-	-	-	-	(300,000)	(300,000)
Balance as at December 31, 2020	**-**	**-**	**-**	**553,388**	**11,114,969**	**11,668,357**

The undiscounted future cash flow obligations related to related party debt are as follows:

Classification		***1***	***2***	***3***	***4***	***5***	***Total***
2021	$	-	-	-	560,137	11,114,969	11,675,106

1. Related party loan

On August 13, 2015 the Company obtained a long-term debt from a related party (relative of a shareholder) in the amount of $100,000. The debt bears interest at 10% per annum and has no fixed repayment term except to be of a long-term nature.

On December 2, 2015, the agreement was amended for the debt to include an option to acquire non-voting shares of the Company in a future financing with a 25% discount. Debt is secured by a general security agreement over all property and assets of the Company but is subordinate to all other debt. The debt was convertible to common shares at the option of the lender at any time without an expiry date.

The Agreement was amended on December 2, 2017 to reflect quarterly interest-only payments of $2,500 and amending the principal amount of the debt to be due in full and payable on June 1, 2018.

On March 12, 2018, the Investor cancelled the 10% interest on the loan going forward effective June 1, 2018, extended the loan to June 1, 2022, and cancelled the equity conversion feature for consideration of 3,333,333 common shares of the Company. Under IFRS 9, the debt was assessed as modified (cancelled, extinguished and derecognized), as the terms were significantly different between the old debt and new debt.

The consideration of 3,333,333 common shares was for forgiving interest prior to March 12, 2018 of $938 and cancelling the conversion option valued at $33,333. The Company used a discounted cash flow model to establish the fair value of the shares at the issuance date. Thus, the value assigned to the common shares was $375,000 with an average share price at the time of issuance of $0.1125, resulting in a loss taken to the statement of operations and comprehensive loss of $340,728.

On February 18, 2019, the debt was fully repaid.

2. Amounts owed to shareholders
Amounts owed to shareholders related to amounts owing to the Company's previous founding shareholders, and were non-interest bearing and had no fixed terms of repayment. On February 18, 2019, the outstanding amounts were fully repaid.

3. Sigma One Capital
On September 18, 2016, the Company issued debt and common shares of the Company to Sigma One Capital (2529808 Ontario Inc.). The Company issued an interest-free debt with a redemption value of $750,000 which had a maturity three years from the date of issue and issued 25,000,000 common shares of the Company for total consideration of $750,000.

The Company measured the equity component using the residual method by discounting the debt element and measured the liability portion of the debt on initial recognition at $425,101 and the equity instrument component was measured at $324,899 as at January 1, 2017.

On February 18, 2019, the debt was repaid, resulting in a loss on derecognition of $74,484 in the statement of operations and comprehensive loss.

4. Notes Payable
The Company obtained financing by way of notes in the total amount of up to $2,500,000 from CannaRoyalty Corp. and TriChome Yield Corp. The notes were secured by a lien on all assets of the Company subordinated to the Royal Bank of Canada and pari-passu with the lenders of the related party loan and the amounts owed to shareholders described above. The notes bear interest at 10% per annum compounded annually and payable at maturity, which is twelve months from the date of each advance. In connection with this financing, warrants were issued to the lenders to acquire common shares of the Company in the amount equal to the total financing obtained from the lenders multiplied by a ratio of 1.33 and divided by a price of $0.3871 per share. The warrants had an expiry date no later than three years from the date of issue of the warrants or upon a liquidity event.

The Company measured the equity components of each drawdown using the residual method by discounting the debt element using an interest rate of 16.97% for the $500,000 draw and 16.89% for the $350,000 draw.

On May 9, 2018, the Company drew $500,000 from the facility and issued 1,717,902 warrants.

On August 28, 2018, the Company drew $350,000 from the facility and issued 1,202,531 warrants.

On February 18, 2019, $425,000 of the debt (being 50% of the total or the portion of the principal owed to TriChome Yield Corp.) was repaid, resulting in a loss on derecognition of $78,294 in the statement of operations and comprehensive loss. On February 19, 2019, all common share warrants expired on a change in control as the Company was acquired by CannaRoyalty Corp.

5. Origin House debt
On October 10, 2018, Origin House advanced the Company $1,000,000 in loans which were interest-free and due on demand.

During the year ended December 31, 2019, Origin House loaned the Company a total of $7,309,119 via cash advances. The loans are all interest-free and due on demand.

Certain of the loans were advanced in contemplation of the acquisition of the Company, which occurred on February 19, 2019 resulting in all third-party debt being acquired by Origin House.

During the year ended December 31, 2019, the Company owed Origin House $721,414 for advance payments received including advances for leases and legal expenses.

On October 7, 2019, 180 Smoke employees were granted Restricted Stock Units (RSUs) from Origin House. The general terms of the plan granted employees shares of Origin House at $5.91 per share for their service. The shares were granted under the Plan in three parts with one third of RSUs vesting after 6 months, 1 year, and 3 years from grant date. During the year ended December 31, 2019, $75,277 in RSUs vested and were included in the amount owed to Origin House by the Company (Note 22). During the year ended December 31, 2020, the remaining RSUs vested resulting in $202,493 included in the amount owed to Origin House.

(Expressed in Canadian Dollars)

During the year ended December 31, 2020, $1,950,916 was advanced by Origin House to the Company and $300,000 was repaid by the Company.

On March 30, 2021 and subsequent to year-end, the Company was acquired by Spyder Cannabis Inc., as disclosed in Note 1.

21. Common shares

Authorized and issued
Unlimited number of common shares. All common shares are fully paid with no par value.

Common shares for 2360149 Ontario Inc.	Number of shares	Amount
Balance at January 1, 2019	**103,333,333**	**$626,921**
Shares issued	620,857	39,136
Transaction costs	-	(98,772)
Balance at December 31, 2019 and 2020	**103,954,190**	**$567,285**

Common shares for 2488004 Ontario Inc.	Number of shares	Amount
Balance at January 1, 2019	**103,333,333**	**$100**
Shares issued	-	-
Balance at December 31, 2019 and 2020	**103,333,333**	**$100**

Common shares for 180 VFC Inc.	Number of shares	Amount
Balance at January 1, 2019	**103,333,333**	**$3**
Shares issued	-	-
Balance at December 31, 2019 and 2020	**103,333,333**	**$3**

In February 2019, 620,857 common shares of 2360149 Ontario Inc. were issued under a stock option plan (see Note 22).

Warrants
In 2018, The Company issued 2,920,433 common share warrants with an exercise price of $0.3871 per warrant. Each warrant entitles the holder upon payment of the exercise price to acquire one common share of the Company. The warrants are exercisable in whole at any time from the date of issuance until the expiry date, which is three years after the issue date, or on a change in control. On February 19, 2019, all common share warrants expired on a change in control as the Company was acquired by CannaRoyalty Corp.

The fair value of the warrants of $176,578 was recorded as equity. The continuity of warrants as at December 31, 2019 is presented below. There were no issuances or exercises of warrants as at December 31, 2020. There were no outstanding warrants as at December 31, 2020 and 2019.

Warrants	Number of warrants		Amount
Balance at December 31, 2018	**2,920,433**	**$**	**167,799**
Transaction costs transferred to deficit on expiration of warrants		$	8,779
Warrants issue-date fair value transferred to deficit on expiration	(2,920,433)	$	(176,578)
Balance at December 31, 2019 and 2020	**-**	**$**	**-**

(Expressed in Canadian Dollars)

22. Share-based payments

The Board of Directors of the Company approved a stock option plan under 2360149 Ontario Inc. to issue up to 10% of the common shares of the Company as stock options. The general terms of award under the plan provide that options to purchase common shares of the Company are granted to employees for their service. On 19 February 2019, 180 Smoke was acquired by Origin House. At that time, the option plan was cancelled, and compensation made to the employees impacted. The vesting of the remaining outstanding options was accelerated, resulting in a $270,288 expense to share-based payments in 2019. The employees were compensated at $90,453 on cancellation of the grants and all remaining stock options expired.

The following table summarizes the continuity of stock options issued under the Plan:

	Total	Weighted average exercise price
Balance Outstanding at December 31 2018	**2,834,648**	**$0.2457**
Exercised	(158,026)	$0.1346
Exercised	(462,831)	$0.0386
Expired	(2,213,791)	$0.2969
Balance Outstanding at December 31, 2019 and 2020	**-**	**-**

There were no stock options issued during the year ended December 31, 2020 and 2019.

There were no outstanding stock options as at December 31, 2019 and 2020.

Certain options were also exercised in 2019 prior to acquisition as noted below:

Exercise date	Grant date	Options exercised		Exercise price		Consideration
February 12, 2019	February 28, 2017	79,013	$	0.1346	$	10,635.15
February 14, 2019	September 1, 2015	462,831	$	0.0386	$	17,865.28
February 14, 2019	February 28, 2017	79,013	$	0.1346	$	10,635.15
		620,857			**$**	**39,135.58**

On October 7, 2019, 180 Smoke employees were granted Restricted Stock Units (RSUs) from Origin House. The general terms of the plan granted employees shares of Origin House at $5.91 per share for their service. The shares were granted under the Plan in three parts with one third of RSUs vesting after 6 months, 1 year, and 3 years from grant date. For the year ended December 31, 2019, the Company recorded $75,277 as salaries, wages, and benefits (note 20). On January 7, 2020, 180 Smoke was acquired by Cresco Labs Inc. At that time, the RSUs were forfeited and the vesting of the remaining grants were accelerated, resulting in a $202,493 expense to salaries, wages, and benefits in 2020.

23. Contributed surplus

Contributed surplus charge for the periods consisted of the issuance and expiration of warrants, share-based payments, and settlement and expiration of stock options. There was no contributed surplus balance as at December 31, 2019 and 2020.

Balance of contributed surplus	**Warrants**		**Stock options**		**Total**	
Balance as at December 31, 2018	**$**	**167,799**	**$**	**182,689**	**$**	**350,488**
Share-based payments		-		270,288		270,288
Cash settlement of cancelled stock option plan		-		(90,453)		(90,453)
Expired options (transferred to deficit)		-		(362,524)		(362,524)
Transferred to deficit on expiration of warrants		(176,578)		-		(176,578)
Transaction costs transferred to deficit on expiration of warrants		8,779		-		8,779
Balance as at December 31, 2019 and 2020	**$**	**-**	**$**	**-**	**$**	**-**

(Expressed in Canadian Dollars)

24. Fair values

Set out below is a comparison by class of the carrying amount and contractual cash flows of the Company's financial instruments that are carried in the financial statements.

Financial assets	**Carrying Value**		**Contractual Cash Flows**	
	31-Dec-20	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**
Cash and cash equivalents	$1,046,151	$539,966	$1,046,151	$539,966
Trade receivables	$388,439	$736,852	$388,439	$736,852
Total Financial Assets	**$1,434,590**	**$1,276,818**	**$1,434,590**	**$1,276,818**

	Carrying Value		**Contractual Cash Flows**	
Financial liabilities	**31-Dec-20**	**31-Dec-19**	**31-Dec-20**	**31-Dec-19**
Accounts payable and accrued liabilities	$1,242,820	$1,178,594	$1,242,820	$1,178,594
Long-term debt	$11,668,357	$9,723,373	$11,675,106	$9,779,081
Total Financial Liabilities	**$12,911,177**	**$10,901,967**	**$12,917,926**	**$10,957,675**

The fair value of the financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- Trade and other accounts receivable and accounts payable and accrued liabilities approximate fair value at their carrying amounts due to the short-term maturities of these instruments.
- The carrying value of the long-term debt approximates its fair value as the terms and conditions of the borrowing arrangements are comparable to market terms and conditions as at December 31, 2020 and 2019.

The above financial assets reflect the total credit risk of the Company. The above financial liabilities reflect the total liquidity risk of the Company.

Fair value hierarchy
As at December 31, 2020 and 2019, the Company did not hold any financial instruments remeasured to fair value. All financial assets and financial liabilities are carried at amortized cost under the Company's business model of collecting and paying principal and interest.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The following were measured using Level 3 hierarchy under IFRS 13 *Fair Value Measurement*:

- Discounted cash flow model for share-based payments; and
- Derivative financial instruments
- Fair value of liabilities using the residual method to determine equity values.

25. Related party disclosures

Key management compensation
During the year ended December 31, 2020 and 2019, key management consists of one member of senior management, being the Chief-level suite of employees.

(Expressed in Canadian Dollars)

	2020	2019
	$	$
Short term employee benefits	**209,708**	312,530
Share-based payments	**80,000**	44,846
	289,708	357,376

The ultimate parent and entities with control over the Company
On February 19, 2019, the Company was acquired by CannaRoyalty Corp. for consideration of $25 million, plus up to $15 million upon the successful completion of certain milestones by December 31, 2020. On October 22, 2018, CannaRoyalty changed the registered name of its business to Origin House. On January 8, 2020, $8,333,333 was paid to previous ownership of the Company in the form of Origin House shares and immediately converted to Cresco shares.

On January 7, 2020, Origin House and Cresco Labs Inc. announced an agreement under which Cresco Labs Inc. acquired all of the outstanding common shares of Origin House.

Management fees
During the year ended December 31, 2019, the Company's parent at the time, Origin House, recharged management fees of $155,750 to the Company for expenses required to operate on a stand-alone basis. The Company was not charged such a fee during the year ended December 31, 2020.

As at December 31, 2020, the Company has notes payable and advance payables of $11,668,357 to CannaRoyalty Corp. (2019 - $9,723,373) (Note 20).

26. Financial risk management objectives and policies
The Company's primary risk management objective is to protect the Company's statement of financial position and cash flow, in order to increase the Company's enterprise value. The capital is assessed as the long-term debt.

The Company operates in the Canadian vape industry, an industry that is highly regulated, with the ability to manufacture, purchase and sell vape, electronic-juice and electronic cigarettes being dependent on municipal, provincial and federal rules and legislation and the need to maintain licenses, permits and registrations in good standing. Failure to comply with the requirements of applicable licenses, permits and registrations or any failure to maintain them would have a material adverse impact on the business, financial condition and operating results of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or in restrictions of operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company is financed with long-term debt. The Company is exposed to market risk, credit risk, interest rate risk, foreign exchange risk and liquidity risk. The Company's senior management and Board of Directors oversees the management of these risks. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks which 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 interest rate risk and foreign currency risk.

Interest rate risk
The Company is exposed to interest rate cash flow risk with respect to certain of its long-term debt bearing interest at variable rates. The Company is exposed to interest rate price risk on certain of its long-term debt, amounts due to/from related parties, and due to shareholders as they bear interest at fixed rates or are non-interest bearing.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities, when revenue, expenses, assets or liabilities are denominated in a different currency from the Company's functional currency. The Company's functional and presentation currency is the Canadian dollar.

The Company undertakes sales and purchases in US dollars and is subject to gains and losses due to the fluctuation of foreign currencies. During the year ended December 31, 2020, the Company did not have any sales denominated in foreign currencies (2019 - 1% of sales were in foreign currencies). During the year ended December 31, 2020, the Company had 2% of purchases in foreign currencies (2019 - 42%). The Company does not use derivative financial instruments to mitigate its foreign currency risk.

As at December 31, 2020, $8,531 of the total assets are held in the United States with a balance in Canadian dollars (2019 - $84,961) of the total assets are held in the US with the balance in Canada. $313,423 of the liabilities are held in the US and the balance in Canada.

Included in the undernoted accounts are the following Canadian dollar balances originally denominated in USD:

Balance of USD (all presented in Canadian dollars)	**December 31, 2020**	**December 31, 2019**
Cash and cash equivalents	$ 8,531	$ 10,259
Accounts payable	(28,579)	(158,030)
Total USD balances in Canadian Dollars	**$ (20,048)**	**$ (147,771)**

The Company applied the following exchange rates at each year end:

	USD
December 31, 2020	1.2732
December 31, 2019	1.2988

The Company's sensitivity to a 10% increase and decrease in the US dollar, versus the Canadian dollar would be $2,005 in the statement of operations and comprehensive loss during the year ended December 31, 2020 (2019 - $14,777).

Credit risk
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's maximum exposure to credit risk is limited to the carrying amount of the trade receivable as at December 31, 2020 in the amount of $388,439 (2019 - $736,852). The Company's aging of accounts receivable and expected credit losses as at December 31, 2020 and 2019 is disclosed in Note 10.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company manages liquidity risk by reviewing its capital and operating requirements on an ongoing basis. The Company continuously reviews both actual and forecasted cash flows to ensure that the Company has appropriate capital capacity.

The following table summarizes the amount of contractual undiscounted future cash flow requirements for financial liabilities as at December 31, 2020 is as follows:

Contractual obligations	**Within 1 year**	**Between 1 and 5 years**	**Over 5 years**	**Total**
Accounts payable and accrued liabilities	$1,242,820	-	-	$1,242,820
Lease liabilities	$1,635,017	$5,332,543	$3,206,948	$10,174,508
Current portion of long-term debt	$ 11,668,357	-	-	$11,668,357
Total Contractual obligations	**$14,546,194**	**$5,332,543**	**$3,206,948**	**$23,085,685**

The Company accrues expenses when incurred. Accounts are deemed payable once a past event occurs that requires payment by a specific date. As at December 31, 2020, 1% of the trade payables were 90 days overdue.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at December 31, 2020:

		2020
Operating lease commitments at December 31, 2020	$	10,174,508
Discounted using the incremental borrowing rate at December 31, 2020		(3,401,140)
Finance lease liabilities recognized at December 31, 2020	**$**	**6,773,368**

(Expressed in Canadian Dollars)

The following table summarizes the amount of contractual undiscounted future cash flow requirements for financial liabilities as at December 31, 2019:

Contractual obligations	Within 1 year	Between 1 and 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$1,178,594	-	-	$1,178,594
Lease liabilities	$1,542,869	$5,790,927	$4,285,993	$11,619,789
Current portion of long-term debt	$9,530,810	-	-	$9,530,810
Total Contractual obligations	**$12,252,273**	**$5,790,927**	**$4,285,993**	**$22,329,193**

The Company accrues expenses when incurred. Accounts are deemed payable once a past event occurs that requires payment by a specific date. As at December 31, 2019, 8% of the trade payables were 90 days overdue.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at December 31, 2019:

		2019
Operating lease commitments at December 31, 2019	$	11,619,789
Discounted using the incremental borrowing rate at December 31, 2019		(4,207,420)
Finance lease liabilities recognized at December 31, 2019	**$**	**7,412,369**

Capital management
The Board of Directors has not established capital benchmarks or other targets. There have been no changes in the Company's approach to capital management relating to working capital, current assets, current liabilities, fixed assets, intangibles, and leases during the years ended December 31, 2020 and 2019. The Company will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Company's strategy, economic conditions, and the risk characteristics of the business.

27. Commitments, guarantees, and collateral

Operating lease commitments – Company as lessee
The Company has lease payments related to various long-term leases as disclosed in note 18.

Guarantees and collateral
The Company has pledged all of the assets of the Company in connection with the various long-term debts (note 20).

28. COVID-19

On March 11, 2021, the World Health Organization declared the outbreak of the novel strain of coronavirus ("COVID-19"), a pandemic, which has had a significant impact on businesses through the restrictions put in place by federal, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown what the extent of the impact the COVID-19 outbreak may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, the Company has closed certain retail locations to follow the provincial mandate requiring the closing of "non-essential" businesses and has applied for government funding offered through the Canada Emergency Wage Subsidy (CEWS). This has resulted in consumers shifting their purchasing habits to the online channel from brick and mortar.

29. Subsequent events

On March 30, 2021, the Company's shares were acquired by Spyder, as disclosed in Note 1.