Delota Corp.

Consolidated Financial Statements

For the Years Ended January 31, 2023 and 2022

(Expressed in Canadian Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Delota Corp.

Opinion

We have audited the accompanying consolidated financial statements of Delota Corp. (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2023 and 2022, and the consolidated statements of net income (loss) and comprehensive income (loss), changes in equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis for opinion

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

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

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

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that as of January 31, 2023, the Company had an accumulated deficit of $5,821,910 (2022 – $13,495,025) and had a working capital deficiency of $1,533,522 in the current year (2022 – $11,600,886). As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Stern & Lovrics LLP

Toronto, Ontario
May 31, 2023

Chartered Professional Accountants
Licensed Public Accountants

Delota Corp.

Consolidated Statements of Financial Position

As at January 31, 2023 and 2022

(Expressed in Canadian Dollars)

	Notes	2023 $	2022 $
ASSETS			
Current			
Cash		**1,271,482**	1,010,354
Accounts receivable		**1,617,308**	831,075
Inventory	*5*	**1,834,964**	1,465,226
Prepaid expenses		**271,688**	195,783
Total current assets		**4,995,442**	3,502,438
Non-current assets			
Intangible assets	*6*	**360,002**	420,429
Intangible assets - trade name	*6*	**3,168,778**	3,409,444
Property and equipment	*7*	**961,790**	1,034,785
Right-of-use assets	*8*	**5,294,370**	5,037,964
Total non-current assets		**9,784,940**	9,902,622
Total assets		**14,780,382**	13,405,060
LIABILITIES AND EQUITY			
Current			
Trade and other payables	*10*	**4,382,067**	2,525,275
Lease liabilities	*11*	**1,213,056**	590,260
Contract liability	*12*	**126,075**	109,241
Government loan	*15*	**178,880**	-
Loans payable	*13, 22*	**628,886**	749,377
Promissory note	*14*	**-**	11,129,171
Total current liabilities		**6,528,964**	15,103,324
Non-current liabilities			
Lease liabilities	*11*	**4,968,216**	5,489,856
Contract liability	*12*	**285,483**	264,566
Government loan	*15*	**-**	158,933
Deferred tax liability	*23*	**839,726**	903,503
Total non-current liabilities		**6,093,425**	6,816,858
Total liabilities		**12,622,389**	21,920,182
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	*17*	**7,528,481**	4,528,481
Warrant reserve		**99,398**	99,398
Contributed surplus		**352,024**	352,024
Deficit		**(5,821,910)**	(13,495,025)
Total shareholders' equity (deficiency)		**2,157,993**	(8,515,122)
Total liabilities and shareholders' equity (deficiency)		**14,780,382**	13,405,060

Nature of Operations and Going Concern (Note 1)

Related Party Transactions (Note 22)

Subsequent Events (Note 25)

Approved on behalf of the Board of Directors:

(signed) "Mark Pelchovitz"_______, Director   (signed) "Steven Glaser"_________, Director

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

Delota Corp.

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the Years Ended January 31, 2023 and 2022

(Expressed in Canadian Dollars)

	Notes	2023 $	2022 $
Revenue		**25,937,502**	17,685,848
Cost of goods sold		**13,730,610**	9,872,553
Gross profit		**12,206,892**	7,813,295
Expenses			
Salaries and wages		**5,830,660**	4,210,824
Rent and utilities		**918,354**	638,479
Delivery		**580,863**	549,226
Office and general		**1,283,623**	947,311
Professional fees		**367,212**	540,730
Advertising and promotion		**225,320**	246,898
Stock-based compensation	*18*	-	180,663
Insurance		**384,331**	166,557
Repairs and maintenance		**307,872**	110,956
Merchant fees		**329,001**	250,662
Foreign exchange loss		**7,745**	7,325
Depreciation	*7*	**339,811**	237,694
Depreciation of right-of-use assets	*8*	**1,200,608**	946,027
Amortization	*6*	**60,427**	50,822
Interest on loans payable		**142,870**	123,202
Interest on lease liabilities	*11*	**751,203**	668,951
Accretion	*15*	**19,947**	19,971
Total expenses		**12,749,847**	9,896,298
Income (loss) before other income (expenses)		**(542,955)**	(2,083,003)
Government assistance	*15, 16*	-	171,174
Other income		**263,788**	203,470
Forgiveness of lease liability		-	261,908
Impairment expense		-	(331,147)
Amortization of intangible assets - trade name	*6*	**(240,666)**	(200,556)
Gain on acquisition of 276 Ontario	*14*	**8,129,171**	-
Impairment of goodwill	*9*	-	(6,919,963)
Income (loss) before income tax recovery		**7,609,338**	(8,898,117)
Deferred tax recovery	*23*	**63,777**	53,147
Net income (loss) and comprehensive income (loss)		**7,673,115**	(8,844,970)
Income (loss) per share - basic		**0.31**	(0.65)
Weighted average number of shares outstanding - basic		**24,902,766**	13,695,315
Income (loss) per share - diluted		**0.27**	(0.65)
Weighted average number of shares outstanding - diluted		**28,600,722**	13,695,315

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

Delota Corp.

Consolidated Statements of Changes in Equity (Deficiency)

For the Years Ended January 31, 2023 and 2022

(Expressed in Canadian Dollars)

	Notes	Number of Common Shares #	Share Capital $	Contributed Surplus $	Warrant Reserve $	Deficit $	Shareholders' Equity (Deficiency) $
Balance, January 31, 2021		**9,418,225**	**2,929,776**	**392,631**	**99,398**	**(4,650,055)**	**(1,228,250)**
Common shares issued for private placement	*17*	2,962,956	1,000,000	-	-	-	1,000,000
Share issuance costs for private placement	*17*	-	(39,115)	-	-	-	(39,115)
Common shares issued for settlement of debt	*17*	1,993,333	299,000	-	-	-	299,000
Common shares issued on exercise of stock options	*17, 18*	35,100	41,820	(24,270)	-	-	17,550
Common shares issued on exercise of stock options	*17, 18*	400,000	297,000	(197,000)	-	-	100,000
Issuance of stock options	*18*	-	-	180,663	-	-	180,663
Net loss for the year		-	-	-	-	(8,844,970)	(8,844,970)
Balance, January 31, 2022		**14,809,614**	**4,528,481**	**352,024**	**99,398**	**(13,495,025)**	**(8,515,122)**
Common shares issued for the acquisition of 276 Ontario	*14, 17*	12,000,001	3,000,000	-	-	-	3,000,000
Net income for the year		-	-	-	-	7,673,115	7,673,115
Balance, January 31, 2023		**26,809,615**	**7,528,481**	**352,024**	**99,398**	**(5,821,910)**	**2,157,993**

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

Delota Corp.
Consolidated Statements of Cash Flows
For the Years Ended January 31, 2023 and 2022
(Expressed in Canadian Dollars)

	2023	2022
	$	$
Cash was provided by (used) in the following activities:		
Operating activities		
Net income (loss) for the year	**7,673,115**	(8,844,970)
Items not requiring an outlay of cash:		
Accretion	**19,947**	19,971
Gain on acquisition of 276 Ontario	**(8,129,171)**	-
Gain on lease modification	**(238,770)**	-
Deferred tax recovery	**(63,777)**	(53,147)
Depreciation	**339,811**	237,694
Depreciation of right-of-use assets	**1,200,608**	946,027
Amortization of intangible assets - trade name	**240,666**	200,556
Amortization	**60,427**	50,822
Government assistance	-	(20,158)
Interest on lease liabilities	**751,203**	668,951
Impairment expense	-	331,147
Impairment of goodwill	-	6,919,963
Stock-based compensation	-	180,663
Change in non-cash working capital:		
Accounts receivable	**(786,233)**	(462,348)
Inventory	**(369,738)**	(14,191)
Prepaid expenses	**(75,905)**	53,944
Contract liability	**146,992**	112,505
Trade and other payables	**1,746,810**	638,096
Cash flows provided by operating activities	**2,515,985**	965,525
Financing activities		
Proceeds from loans payable	**97,800**	225,865
Repayments of loans payable	**(24,420)**	-
Lease payments	**(2,061,421)**	(1,472,156)
Proceeds from exercise of options	-	117,550
Net cash proceeds from private placement	-	960,885
Cash flows used in financing activities	**(1,988,041)**	(167,856)
Investing activities		
Purchase of property and equipment	**(266,816)**	(98,194)
Proceeds from disposition of property and equipment	-	12,623
Cash flows used in investing activities	**(266,816)**	(85,571)
Increase in cash during the year	**261,128**	712,098
Cash, beginning of year	**1,010,354**	298,256
Cash, end of year	**1,271,482**	1,010,354
Non-cash transactions effecting cash flows from financing and investing activities		
Issuance of stock options	-	**180,663**
Common shares issued for conversion of debt	-	**237,997**
Acquisition of 180 Smoke (Note 9)		

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

1. Nature of Operations and Going Concern

Delota Corp. ("Delota" or the "Company") was incorporated pursuant to the provisions of the *Business Corporations Act* (Alberta) on February 20, 2014. On November 17, 2021, the Company changed its name from Spyder Cannabis Inc. to Delota Corp. The Company's common shares are currently listed for trading on the Canadian Securities Exchange ("CSE") under the symbol "LOTA". The Company is an established vape and cannabis retailer that curates and sells vape and nicotine-related products, other smoking cessation products, cannabis products, and accessories where regulations permit. The Company currently operates 28 brick-and-mortar specialty vape stores in Ontario under the 180 Smoke Vape Store banner name, a leading Canada-wide specialty vape e-commerce platform (www.180smoke.ca), and 5 licenced dispensaries under the Offside Cannabis banner name in Ontario. The Company's corporate and registered office is 7941 Jane Street, Unit 2, Concord, Ontario, L4K 2M7.

These consolidated financial statements of the Company have been prepared on a going concern basis which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. During the year ended January 31, 2023, the Company generated net income of $7,673,115 (January 31, 2022 – incurred a net loss of $8,844,970), had an accumulated deficit of $5,821,910 (January 31, 2022 – $13,495,025) as at January 31, 2023 and had a working capital deficiency of $1,553,522 (January 31, 2022 – $11,600,886) as at January 31, 2023. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. The continuing operations of the Company are dependent on funding. The Company intends to finance its future requirements through a combination of debt or equity financing. There is no assurance that the Company will be able to obtain such financing or obtain them on favorable terms. These material uncertainties cast significant doubt as to the Company's ability to continue as a going concern. As at January 31, 2023 and 2022, these consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of Preparation

a) Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC") in effect as at January 31, 2023.

These consolidated financial statements were authorized for issuance by the Company's Audit Committee and its Board of Directors on May 31, 2023.

2. Basis of Preparation (continued)

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except where otherwise disclosed. Historical cost is based on the fair value of the consideration given in exchange for assets. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Functional and Presentation Currency

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

d) Basis of Consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities. The financial statements of the Company's subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: 2360149 Ontario Inc. and its wholly-owned subsidiaries: 420 Wellness Inc. and 180 Smoke LLC; 2766563 Ontario Inc.; 2488004 Ontario Inc.; 180 VFC Inc.; and Spyder Cannabis Subco Inc. and its wholly-owned subsidiaries: Spyder Vapes Inc., Spyder Vapes (East) Inc., Spyder Vapes (Appleby) Inc., and The Green Spyder Inc. and its wholly-owned subsidiaries: The Green Spyder (Pickering) Inc., The Green Spyder (Lundy's) Inc. and The Green Spyder IP Inc. All inter-company transactions, balances and unrealized gains and losses on transactions between these subsidiaries are eliminated upon consolidation.

e) Use of Estimates and Judgements

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

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

3. Significant Accounting Policies

The significant accounting policies applied by the Company and used in preparation of these consolidated financial statements are described below:

Cash

Cash includes cash on hand, balances held in trust by counsel, cash deposits in financial institutions and other short-term deposits that are readily convertible into cash. Short-term deposits with maturity dates greater than 90 days are classified as short-term investments.

Inventory

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

Business combinations

Acquisitions have been accounted for using the acquisition method required by *IFRS 3 - Business Combinations*. Goodwill arising from acquisitions is measured as the fair value of the consideration transferred less the net recognized amount of the estimated fair value of identifiable assets acquired and liabilities assumed (subject to certain exemptions to fair value measurement principles such as deferred tax assets or liabilities), all measured as of the acquisition date. Transaction costs that are incurred by the Company in connection with a business combination are expensed as incurred (except for costs directly related to the issuance of shares which are recognized in equity). The Company uses its best estimates and assumptions to accurately value assets and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, and these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which does not exceed more than one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with a corresponding offset to goodwill. On conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the consolidated statements of net income (loss) and comprehensive income (loss).

3. Significant Accounting Policies (continued)

Goodwill

Goodwill is initially measured at cost and is calculated as the excess of the purchase price for an acquired business over the fair value of acquired net identifiable assets and liabilities and is allocated to the cash generating units ("CGU") to which it relates. Goodwill is not amortized but is evaluated for impairment against the carrying amount of the CGU annually or more often if events or circumstances indicate that there may be an impairment. The carrying amount of a CGU includes the carrying amount of assets, liabilities and goodwill allocated to the CGU. If the recoverable amount is less than the carrying value, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to the other non-financial assets of the CGU proportionately based on the carrying amount of each asset. Any impairment loss is charged to income in the period in which the impairment is identified. Goodwill is stated at cost less accumulated impairment losses. Subsequent reversals of goodwill impairment are prohibited.

Foreign currency translation

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

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is provided using the following methods at rates intended to depreciate the costs of the assets over their estimated use lives:

Asset	Method	Rate
Furniture and equipment	Declining balance	20%
Plant and machinery	Declining balance	20%
Computer equipment	Declining balance	30%
Leasehold improvements	Straight-line	Lease term
Automobile	Declining balance	30%
Website and signs	Straight-line	2 years

3. Significant Accounting Policies (continued)

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

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

Other subsequent expenditures are capitalized if future economic benefits will arise from the expenditure. All other expenditures, including repairs and maintenance, are recognized in the consolidated statements of net income (loss) and comprehensive income (loss).

Provisions

Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event; and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statements of net income (loss) and 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 as a finance cost.

Intangible assets

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

Intangible assets acquired are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of net income (loss) and comprehensive income (loss). Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually or more frequently when circumstances indicate that the carrying value may not be recoverable.

3. Significant Accounting Policies (continued)

Intangible assets (continued)

Asset type	Amortization method	Amortization term
Website and ERP	Straight-line	10 years
Trade name	Straight-line	15 years

Estimated useful life of an intangible asset is the lesser of the economic life of the intangible asset and the number of years the right is legally enforceable. The estimated useful life, residual value and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Following initial recognition, intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Leases

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

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

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

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

3. Significant Accounting Policies (continued)

Leases (continued)

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

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

The Company applied the practical expedient for the annual period ended January 31, 2022 and has recorded any eligible change in lease payments resulting from COVID-19-Related Rent Concessions in the consolidated statements of net income (loss) and comprehensive income (loss), at the later of the date on which the rent concession arrangement is executed and the period to which the rent concession related to.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and recognized over the expected service periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined that the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. Valuation models such as Black-Scholes are used to measure the fair value of the instruments issued when there are sufficient and reliable observable market inputs. The offset to the recorded cost is applied to contributed surplus. Consideration received on the exercise of stock options and the related contributed surplus is recorded as share capital and the related contributed surplus is transferred to share capital.

3. Significant Accounting Policies (continued)

Government assistance

The Company recognizes government assistance when there is reasonable assurance that the Company has met the requirements of the approved grant program and the Company is reasonably certain, based on management's judgement, that the government grant will be received. Government assistance, including grants, related to operating expenses is accounted for as a reduction to the related expenses. The Company received government assistance in the form of grants as noted in Note 15.

Revenue from contracts with customers

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

The Company records revenue in accordance with the five steps as outlined below:

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

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

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

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

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

Equity

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

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

3. Significant Accounting Policies (continued)

Cost of goods sold

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

Impairment of non-financial assets

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

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

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

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

Income taxes

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

Current tax

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

3. Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax

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

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

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are reviewed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered.

Financial instruments

Financial assets

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

Financial assets at FVTPL

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the consolidated statements of net income (loss) during the period in which the change occurs. Realized and unrealized gains or losses resulting from assets held at FVPTL are included in the consolidated statements of net income (loss) and comprehensive income (loss) in the period in which they relate to.

Financial assets at FVTOCI

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets at amortized cost

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

Financial liabilities

Financial liabilities are initially recorded at fair value and subsequently measured at amortized cost, unless they are required to be measured at FVTPL (such as derivatives) or the Company has elected to measure at FVTPL.

The Company has made the following classifications of its financial instruments:

Financial instrument	Classification
Cash	FVTPL
Accounts receivable	Amortized cost
Trade and other payables	Amortized cost
Government loan	Amortized cost
Loans payable	Amortized cost
Promissory note	Amortized cost

Impairment

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

Income (loss) per common share

Basic income (loss) per common share is computed by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted income (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

3. Significant Accounting Policies (continued)

New standards not yet adopted and interpretations issued but not yet effective

The following amendments and standards have been recently issued but are not yet effective. Pronouncements that are irrelevant or not expected to have a significant impact have been excluded.

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

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

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

This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

Amendments to IAS 37: Onerous Contracts and the Cost of Fulfilling a Contract

The amendment specifies that 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. This amendment is effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted. The extent of the impact of adoption of this amendment has not yet been determined.

4. Use of Judgements and Estimates

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

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

4. Use of Judgements and Estimates (continued)

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

Estimates and judgements

Critical accounting estimates are those that require management to make assumptions about matters that are highly uncertain at the time the estimate or assumption is made. Judgements are used in situations when there is a choice and/or assessment required by management. Critical accounting estimates are also those that could potentially have a material impact on the Company's consolidated financial results where a different estimate or assumption is used. The significant areas of estimation uncertainty and use of judgements are as follows:

Inventory valuation

Inventory is carried at the lower of cost and net realizable value; in estimating net realizable value, the Company makes estimates related to obsolescence, future selling prices, seasonality, customer behavior, and fluctuations in inventory levels. The Company records a write-down to reflect management's best estimate of the net realizable value of inventory based on the above noted factors.

Share-based compensation

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

Carrying values of tangible assets, and definite life intangible assets

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

Contingencies

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

4. Use of Judgements and Estimates (continued)

Income taxes

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

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

Leases

The Company estimates a lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option by assessing relevant factors such as profitability. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment of a lease term is reviewed if a significant event or a significant change in circumstance occurs, which affects this assessment and that is within the control of the lessee. The Company estimates the incremental borrowing rate used to measure the lease liability for each lease contract. This includes estimation in determining the asset-specific security impact.

Deferred tax assets and liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company’s ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful execution of the Company’s business plan. To the extent that management’s assessment of the Company’s ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Assessment of revenues

Management assesses which contracts occur at a point in time, over a period of time, and based on usage and royalties. Judgement is required on revenues recorded over a period of time. Royalty, service fee, and license fee revenues from franchisees of the Company are recognized over a period of time as they are earned in accordance with the substance of the relevant agreement.

(Expressed in Canadian Dollars)

4. Use of Judgements and Estimates (continued)

Carrying values of goodwill and other indefinite-life intangible assets

The values associated with goodwill and other indefinite-life intangible assets involve significant estimates and assumptions, including those with respect to the determination of cash generating units (“CGUs”), future cash inflows and outflows, discount rates and useful asset lives. At least annually, the carrying amount of goodwill and other indefinite-life intangible assets are reviewed for potential impairment. Among other things, this review considers the recoverable amounts of the CGUs based on the higher of value in use or fair value less costs of disposal using discounted estimated future cash flows. These significant estimates require considerable judgement which could affect the Company’s future results if the current estimates of future performance and fair value change.

Purchase price allocation

The purchase price allocation for business combinations and asset acquisitions is based on the fair value of the assets acquired, liabilities assumed, and intangible assets identified, including managements’ process for developing the estimates and the significant assumptions underlying the estimates.

5. Inventory

As part of the acquisition of 180 Smoke (Note 9), the Company acquired inventory in the amount of $1,279,735 during the year ended January 31, 2022. As at January 31, 2023 and 2022, the Company’s inventory was comprised of the following:

	January 31, 2023 $	January 31, 2022 $
Raw materials	**134,389**	144,230
Work-in-progress	**206,428**	5,586
Finished goods	**1,494,147**	1,315,410
Total inventory balance at the lower of cost and net realizable value	**1,834,964**	1,465,226

(Expressed in Canadian Dollars)

6. Intangible Assets

The Company's intangible assets include the costs to develop its website and enterprise resource planning software, as well as a trade name. Changes to the intangible assets balance during the year ended January 31, 2023 consist of the following:

Cost:	Website and ERP $	Trade name $
As at January 31, 2021	**-**	**-**
Additions (disposals)	471,251	3,610,000
As at January 31, 2022	**471,251**	**3,610,000**
Additions (disposals)	-	-
As at January 31, 2023	**471,251**	**3,610,000**
Accumulated amortization:		
As at January 31, 2021	**-**	**-**
Amortization	50,822	200,556
As at January 31, 2022	**50,822**	**200,556**
Amortization	60,427	240,666
As at January 31, 2023	**111,249**	**441,222**
Carrying amount:		
As at January 31, 2022	420,429	3,409,444
As at January 31, 2023	**360,002**	**3,168,778**

During the year ended January 31, 2023, the Company recorded amortization expense related to the website and ERP in the amount of $60,427 (January 31, 2022 – $50,822) and the trade name in the amount of $240,666 (January 31, 2022 – $200,556).

(Expressed in Canadian Dollars)

7. Property and Equipment

Property and equipment is comprised of the following:

	Furniture and equipment $	Plant and machinery $	Computer equipment $	Leasehold improvements $	Website, signs and automobile $	Total $
Cost						
As at January 31, 2021	**91,497**	**-**	**30,082**	**226,750**	**80,645**	**428,974**
Additions	294,739	34,226	19,722	702,170	2,469	1,053,326
Disposals	-	-	-	-	(39,644)	(39,644)
As at January 31, 2022	**386,236**	**34,226**	**49,804**	**928,920**	**43,470**	**1,442,656**
Additions	5,106	-	-	252,574	9,136	266,816
Disposals	-	-	-	-	-	-
As at January 31, 2023	**391,342**	**34,226**	**49,804**	**1,181,494**	**52,606**	**1,709,472**
Accumulated depreciation						
As at January 31, 2021	**34,625**	**-**	**18,831**	**91,654**	**64,711**	**209,821**
Depreciation	40,308	5,249	10,945	165,674	15,518	237,694
Disposals	-	-	-	-	(39,644)	(39,644)
As at January 31, 2022	**74,933**	**5,249**	**29,776**	**257,328**	**40,585**	**407,871**
Depreciation	47,797	5,842	5,753	275,876	4,543	339,811
Disposals	-	-	-	-	-	-
As at January 31, 2023	**122,730**	**11,091**	**35,529**	**533,204**	**45,128**	**747,682**
Net book value ($)						
As at January 31, 2022	**311,303**	**28,977**	**20,028**	**671,592**	**2,885**	**1,034,785**
As at January 31, 2023	**268,612**	**23,135**	**14,275**	**648,290**	**7,478**	**961,790**

During the year ended January 31, 2023, the Company recorded depreciation expense related to property and equipment in the amount of $339,811 (January 31, 2022 – $237,694).

8. Right-of-use Assets

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

	$
Balance, January 31, 2021	**469,976**
Acquisition of 180 Smoke *(Note 9)*	5,201,946
Additions during the year	651,365
Disposals during the year	(339,296)
Depreciation during the year	(946,027)
Balance, January 31, 2022	**5,037,964**
Additions during the year	1,697,350
Disposals during the year	(325,514)
Lease modifications	85,178
Depreciation during the year	(1,200,608)
Balance, January 31, 2023	**5,294,370**

(Expressed in Canadian Dollars)

8. Right-of-use Assets (continued)

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

9. Acquisition of 180 Smoke

On March 30, 2021, the Company acquired (the "Acquisition") all of the issued and outstanding common shares of the entities that collectively comprise the business of 180 Smoke (collectively, "180 Smoke"), a dominant vape retailer in Canada, namely: (i) 2360149 Ontario Inc. d/b/a 180 Smoke and its wholly-owned subsidiaries 420 Wellness Inc. and 180 Smoke LLC; (ii) 180 VFC Inc.; and (iii) 2488004 Ontario Inc. The Acquisition was completed with an arm's length party on a cash-free basis (after post-closing adjustments), for promissory note of $11,129,171 and nominal consideration of $1.

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired.

	$
Consideration paid	
Cash consideration	**1**
Promissory note	**11,129,171**
Total consideration paid	**11,129,172**
Purchase Price Allocation	
Assets acquired	
Cash and cash equivalents	**288,546**
Accounts receivable	**368,727**
Prepaid expenses and deposits	**176,143**
Inventory	**1,279,735**
Property and equipment	**955,131**
Intangible assets	**463,096**
Right-of-use assets	**5,201,946**
Total assets	**8,733,324**
Liabilities assumed	
Accounts payable and accrued liabilities	**1,026,407**
Income taxes payable	**5,767**
Contract liability	**261,302**
Lease liabilities	**5,883,989**
Total liabilities	**7,177,465**
Excess of consideration over net assets acquired	**9,573,313**
Amount allocated to intangible assets - 180 Smoke trade name	**3,610,000**
Amount deferred tax liability	**(956,650)**
Amount allocated to goodwill	**6,919,963**
	9,573,313

(Expressed in Canadian Dollars)

9. Acquisition of 180 Smoke (continued)

Following the Acquisition, the Company tested for impairment of goodwill, and determined that the amount allocated to goodwill was impaired. During the year ended January 31, 2022, the Company recorded an impairment of goodwill in the amount of $6,919,963, which was reported on the Company's consolidated statements of net income (loss) and comprehensive income (loss). As the goodwill amount was written off in the prior year, there was no subsequent goodwill impairment testing to be done during the year ended January 31, 2023.

10. Trades and Other Payables

The Company's trades and other payables was comprised of the following:

	January 31, 2023	January 31, 2022
	$	**$**
Accounts payable and accrued liabilities	**3,297,048**	2,077,166
Sales tax payable	**855,038**	448,109
Excise tax payable	**229,981**	-
Balance, January 31, 2023 and January 31, 2022	**4,382,067**	2,525,275

11. Lease Liabilities

The Company has entered into various long-term lease agreements. At the commencement date of each lease, the lease liability was measured at the present value of the lease payments that have not been paid. These lease payments are discounted by the Company's specific business unit's incremental borrowing rate in the range of 12.00% - 15.00%. The following represents the Company's lease obligations as at January 31, 2023:

	$
Balance, January 31, 2021	**609,875**
Acquisition of 180 Smoke *(Note 9)*	5,883,989
Additions during the year	651,365
Forgiveness of lease liability	(261,908)
Interest expense	668,951
Lease payments	(1,472,156)
Balance, January 31, 2022	**6,080,116**
Additions during the year	1,697,350
Termination of lease contract	(371,154)
Lease modifications	85,178
Interest expense	751,203
Lease payments	(2,061,421)
Balance, January 31, 2023	**6,181,272**

(Expressed in Canadian Dollars)

11. Lease Liabilities (continued)

Summary:

	January 31, 2023 $	January 31, 2022 $
Current portion of lease liabilities	**1,213,056**	590,260
Non-current lease liabilities	**4,968,216**	5,489,856
Balance, January 31, 2023 and 2022	**6,181,272**	6,080,116

The Company has commitments relating to operating leases for its retail locations and vehicles under its non-cancelable operating leases. The future minimal annual undiscounted rental payments under these operating leases as at January 31, 2023 are as follows:

One year	$ 1,718,247
Between two to five years	$ 5,144,882
More than five years	$ 285,710

12. Contract Liability

Contract liability relates to deferred revenue consisting of loyalty programs, franchise fee revenue, and service fee revenue. The Company acquired this contract liability as part of the Acquisition of 180 Smoke (Note 9) in the amount of $261,302. Subsequent to the Acquisition of 180 Smoke, the Company received advanced payments from customers in the amount of $547,330 and recognized performance obligations in the amount of $397,074. As at January 31, 2023, this contract liability amounted to $411,558 (January 31, 2022 – $373,807). The current portion of this contract liability amounted to $126,075 and the long-term portion of this contract liability amounted to $285,483 (January 31, 2022 – $109,241 and $264,566, respectively).

13. Loans Payable

Loans payable are comprised of the following:

	January 31, 2023 $	January 31, 2022 $
Government guaranteed bank loan, payable in monthly installments of $1,530, bearing interest at prime plus 3% per annum. Balance is secured by a general security agreement and guaranteed by 2 shareholders of the Company up to a maximum of 25% of the original amount advanced.	**1,807**	23,227
Loans payable, interest bearing at rates between 12% - 24% per annum, interest only payments, monthly, secured and due on demand.	**627,079**	726,150
Balance, January 31, 2023 and January 31, 2022	**628,886**	749,377

(Expressed in Canadian Dollars)

14. Promissory Note

On March 30, 2022, the Company acquired all of the issued and outstanding common shares of 2766563 Ontario Inc. ("276 Ontario") through the issuance of an aggregate of 12,000,001 common shares of the Company, at a price of $0.25 per common share. For accounting purposes, the transaction is considered outside of the scope of IFRS 3 Business Combinations ("IFRS 3"), since 276 Ontario did not constitute a business. The transaction is accounted for in accordance with IFRS 2 Share-based Payments ("IFRS 2"), whereby the Company acquired the net assets of 276 Ontario as follows:

	$
Consideration paid	
12,000,001 common shares	**3,000,000**
Total consideration paid	**3,000,000**
Assets acquired (liabilities assumed)	
Promissory note receivable from 2360149 Ontario Inc.	**11,129,171**
Total net assets acquired:	**11,129,171**
Excess of net assets acquired over consideration paid	**8,129,171**

As at January 31, 2022, the Company had a promissory note in the principal amount of $11,129,171 held by 276 Ontario, which was unsecured, non-interest bearing and due on demand. This promissory note arose from the Company's acquisition of 180 Smoke (Note 9).

As a result of the acquisition of 276 Ontario, the Company's promissory note held with 276 Ontario has been eliminated on consolidation and a gain on the acquisition of 276 Ontario in the amount of $8,129,171 was recorded during the year ended January 31, 2023.

15. Government Loan

During the year ended January 31, 2021, the Company obtained an aggregate of $300,000 in loans under the Canada Emergency Business Account (collectively, the "CEBA Loan"). The CEBA Loan was granted in the form of an interest-free revolving line of credit of which up to $300,000 may be drawn. On January 1, 2021, any balance remaining on the revolving line of credit automatically converted into a non-revolving term loan. Any outstanding balance on the CEBA Loan not repaid by January 1, 2023 will be converted into an interest-bearing loan at a rate of 5% per annum. The CEBA Loan matures on December 31, 2025. If two-thirds (or $200,000) of the outstanding CEBA Loan is paid on or before December 31, 2022, the remaining one-third (or $100,000) will be forgiven. The Company expects to repay $200,000 of the outstanding CEBA Loan on or before such date. The Company has discounted the CEBA Loan using a discount rate of 12% during the interest-free loan period, which is the Company's specific business unit's incremental borrowing rate. The fair value of the CEBA Loan at inception amounted to $157,514.

15. Government Loan (continued)

During the year ended January 31, 2022, the repayment related to the CEBA Loan was extended to December 31, 2023. The maturity extension resulted in a modification of debt which resulted in a gain recognized in the amount of $20,158 during the year ended January 31, 2022.

Accretion expense on the CEBA Loan during the year ended January 31, 2023 amounted to $19,947 (January 31, 2022 – $19,971). As at January 31, 2023, the fair value of the CEBA Loan amounted to $178,880 (January 31, 2022 – $158,933).

16. Government Grants

The Canada Emergency Wage Subsidy ("CEWS") government program provides a wage subsidy of up to 75% for qualifying businesses. The purpose of the wage subsidy is to allow employers to re-hire workers that were previously laid off and to continue to employ those who are already on payroll. During the year ended January 31, 2023, the Company has received approximately $nil (January 31, 2022 – $15,446) as a wage subsidy under the CEWS. This has been recognized in the consolidated statements of net income (loss) and comprehensive income (loss) as a reduction to the related expenses.

During the year ended January 31, 2023, the Company received $nil (January 31, 2022 – $151,016) as a COVID-19 Business Support Grant. This has been recognized in the consolidated statements of net income (loss) and comprehensive income (loss) as government assistance.

17. Share Capital

The Company is authorized to issue an unlimited number of common shares. On September 17, 2021, the Company completed a 5 to 1 share consolidation. All references to the number of common shares and per share amounts have been retrospectively restated.

During the year ended January 31, 2023, the Company had the following common share transactions:

- On March 30, 2022, the Company completed the acquisition of 276 Ontario pursuant to which the Company issued 12,000,001 common shares at a price of $0.25 per share (Note 14).

During the year ended January 31, 2022, the Company had the following common share transactions:

- On May 17, 2021, and in connection with options previously issued, options for the purchase of 400,000 common shares of the Company were exercised at a price of $0.25 per share for total gross proceeds of $100,000. As a result of this exercise, contributed surplus in the amount of $197,000 was transferred to share capital. Such shares were issued to directors of the Company;

17. Share Capital (continued)

- On April 1, 2021, the Company completed a non-brokered private placement offering (the "Offering") through the issuance of 2,962,956 units ("Units") of the Company, at a price of $0.3375 per Unit, for total gross proceeds of approximately $1,000,000. In connection with the Offering, share issuance costs of $39,115 were recorded. Each Unit consisted of one common share of the Company and one common share purchase warrant (each, a "Warrant"). Each Warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.675 per common share at any time prior to the earlier of: (i) April 1, 2023; or (ii) in the event that the closing price of the Company's common shares on the CSE is at least $1.00 per share for a minimum of 10 consecutive trading days, the Company may provide written notice to the holders of the Warrants accelerating the expiry date of such Warrants to be 30 days following the date of such written notice. The Company adopted the residual method with respect to the measurement of the Warrants and accordingly, the difference between the proceeds raised and the value of the common shares is the residual value of the Warrants, which amounted to $nil. A director of the Company participated in the Offering and received 30,000 Units for an aggregate subscription of $10,125;
- On March 16, 2021, the Company completed a debt settlement transaction pursuant to which the Company issued, to certain creditors of the Company, an aggregate of 1,993,333 common shares of the Company, at a price of $0.15 per share, in settlement of an aggregate of $299,000 in indebtedness of the Company. Certain directors of the Company participated in the debt settlement transaction and acquired an aggregate of 1,586,666 common shares of the Company in settlement of an aggregate of approximately $237,997 in indebtedness of the Company; and
- On February 17, 2021, and in connection with options previously issued, options were exercised for the purchase of 35,100 common shares of the Company, at an exercise price of $0.50 per share, for total gross proceeds of $17,550. As a result of this exercise, contributed surplus in the amount of $24,270 was transferred to share capital.

The Company is authorized to issue an unlimited number of preferred shares, issuable in series. The preferred shares may be issued in one or more series at the discretion of the Company's board of directors who are authorized to fix the number of preferred shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the preferred shares of each series.

As at January 31, 2023 and 2022, no preferred shares were issued and outstanding.

(Expressed in Canadian Dollars)

18. Share-based Payments

The Company has an omnibus incentive plan (the "Omnibus Plan") under which the board of directors may from time to time, in its discretion, grant non-transferable stock options ("Options") and restricted share units ("RSUs") (Options and RSUs collectively referred to as "Awards") to directors, officers, employees and consultants of the Company. Pursuant to the Omnibus Plan, the aggregate number of common shares reserved for issue under the Omnibus Plan may not exceed ten percent (10%) of the common shares of the Company outstanding from time to time. Furthermore, the Omnibus Plan sets the maximum number of common shares reserved for issuance, in the aggregate, pursuant to the settlement of RSUs granted under the Omnibus Plan at 740,000 common shares. Options granted pursuant to the Omnibus Plan shall be exercisable for a period of up to ten (10) years at an exercise price of not less than the closing price of the common shares on the trading day immediately preceding that date of grant, less the maximum discount, if any, permitted by the principal stock exchange on which the common shares are listed.

The maximum number of common shares reserved for issue pursuant to Awards granted to participants who are insiders of the Company in any twelve (12) month period may not exceed, in the aggregate, ten percent (10%) of the number of common shares then outstanding. The maximum number of common shares reserved for issue pursuant to Awards granted to any one participant in any twelve (12) month period shall not exceed five percent (5%) of the number of common shares then outstanding. The maximum number of common shares reserved for issue under Awards granted to any one participant (other than a participant who is an eligible director or eligible employee) in any twelve (12) month period shall not exceed two percent (2%) of the number of common shares then outstanding.

The following is a continuity of the Company's stock options for the years ended January 31, 2022 and 2023:

	Options Outstanding (#)	Weighted Average Exercise Price ($)	Weighted Average Life Remaining (yrs)
Balance, January 31, 2021	**770,280**	**0.35**	**2.33**
Exercised	(435,140)	0.25	-
Expired	(115,140)	0.50	-
Granted	515,000	0.50	4.00
Balance, January 31, 2022	**735,000**	**0.50**	**2.83**
Expired	-	-	-
Granted	-	-	-
Balance, January 31, 2023	**735,000**	**0.50**	**1.83**
Exercisable, January 31, 2023	**735,000**	**0.50**	**1.83**

A summary of the Company's options outstanding as at January 31, 2023 is as follows:

Grant Date	Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Weighted Average Life (yrs)
Oct. 10, 2018	Oct. 10, 2023	100,000	100,000	$0.50	0.69
Nov. 1, 2018	Nov. 1, 2023	120,000	120,000	$0.50	0.75
May 21, 2021	May 20, 2025	515,000	515,000	$0.50	2.30

(Expressed in Canadian Dollars)

18. Share-based Payments (continued)

Option Grants

On May 21, 2021, the Company granted and issued Options for the purchase of up to 515,000 common shares of the Company to certain Company's employees, officers and directors. These Options are exercisable for a period of four years from the date of issuance with an exercise price of $0.50 per share.

The fair value of these issued Options was determined using the Black-Scholes Option Pricing Model with the following range of assumptions:

Risk-free interest rate	0.76 %
Expected life	1 year
Estimated volatility in the market price of the common shares	159 %
Dividend yield	$nil

During the year ended January 31, 2022, the Company expensed $180,663 in the fair value of Options as a result of the above issuance which has been recorded as stock-based compensation. No share-based payment expense was incurred during the year ended January 31, 2023.

19. Warrants

The following is a continuity of the Company's warrants for the years ended January 31, 2022 and 2023:

	Warrants Outstanding (#)	Weighted Average Exercise Price ($)	Weighted Average Life Remaining (yrs)
Balance, January 31, 2021	**198,467**	**1.50**	**0.30**
Expired	(198,467)	1.50	-
Granted	2,962,956	0.68	2.00
Balance, January 31, 2022	**2,962,956**	**0.68**	**1.16**
Expired	-	-	-
Granted	-	-	-
Balance, January 31, 2023	**2,962,956**	**0.68**	**0.16**
Exercisable, January 31, 2023	**2,962,956**	**0.68**	**0.16**

A summary of the Company's warrants outstanding as at January 31, 2023 is as follows:

Expiry Date	Warrants Outstanding	Warrants Exercisable	Exercise Price	Weighted Average Life (yrs)
01-Apr-23	2,962,956	2,962,956	$0.675	1.16

20. Capital Management

The Company's objectives when managing capital are to:

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

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the board of directors on an ongoing basis.

The Company's equity comprises of share capital, contributed surplus, warrant reserve, and accumulated deficit in the definition of capital. As at January 31, 2023, the Company's shareholders' equity was $2,157,993 (January 31, 2022 – shareholders' deficiency of $8,515,122) which included an accumulated deficit of $5,821,910 (January 31, 2022 – $13,495,025).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. Selected information is provided to the board of directors of the Company. The Company's capital management objectives, polices and processes have remained unchanged during the year ended January 31, 2023. The Company is not subject to any external capital requirements.

21. Financial Instruments and Risk Assessment

The fair value hierarchy that reflects the significance of inputs used in making fair value measurements is as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3: inputs for the asset or liability that are not based upon observable market data.

Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

21. Financial Instruments and Risk Assessment (continued)

Fair value

The Company’s cash is valued at Level 1. Other than that, none of the Company’s financial instruments are recorded at fair value on the consolidated statements of financial position

Financial instruments of the Company consist of cash, accounts receivable, trade and other payables, loans payable, government loan, and the promissory note. There are no significant differences between the carrying amounts of the current assets and current liabilities reported on the consolidated statements of financial position and their estimated fair values due to the relatively short-term maturities of these financial instruments. The government loan as at January 31, 2023 approximated its fair value as terms and conditions represented market terms and conditions.

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

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

Credit risk

The Company is exposed to credit risk on its cash balance, and accounts receivable from customers. The credit risk associated with the Company’s cash is considered low, as the cash is held with reputable financial institutions. The Company’s maximum exposure to credit risk associate with its customers is limited to $1,617,308, the balance held as at January 31, 2023. Given the Company’s history with these customers and their financial strength, the Company has assessed the credit risk related to these customers as low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due within one year. The Company’s approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company’s reputation.

21. Financial Instruments and Risk Assessment (continued)

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 of interest rate risk, foreign exchange risk, and price risk.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates on all of the Company's existing debt are fixed or non-interest bearing, and therefore it is not currently subject to any significant interest rate risk.

(b) Foreign currency risk

The Company is exposed to foreign currency risk on fluctuations to cash, accounts receivable, and trade and other payables. As at January 31, 2023, the Company had minimal accounts in foreign currencies, and considers foreign exchange risk to be insignificant.

(c) Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in Canadian Dollars)

22. Related Party Transactions

Key management personnel compensation

The Company defines key management personnel as the officers and directors of the Company. Key management compensation during the year ended January 31, 2023 and 2022 is as follows:

	January 31, 2023	January 31, 2022
	$	$
Salaries and other short-term employee benefits	**777,088**	555,039
Car allowance to director	**12,804**	6,750
Stock-based compensation	**-**	157,861
Director fees	**54,000**	27,000
Balance, January 31, 2023 and January 31, 2022	**843,892**	746,650

Related party transactions as at and for the year ended January 31, 2023 and 2022 and the balances as at January 31, 2023 and 2022, not disclosed elsewhere in these consolidated financial statements are as follows:

a) Included in loans payable is $74,150 (January 31, 2022 – $74,150) to related parties of the Company (Note 13). These loans are unsecured, interest bearing between 12% - 24%, with no set terms of repayment;

b) Included in accounts payable is $149,860 (January 31, 2022 – $130,120) due to officers and directors of the Company;

c) During the year ended January 31, 2022, on March 16, 2021 and as disclosed in Note 17, the Company completed a debt settlement transaction pursuant to which the Company issued to directors of the Company, an aggregate of 1,586,666 common shares of the Company, at a price of $0.15 per share, in settlement of an aggregate of approximately $237,997 in indebtedness;

d) During the year ended January 31, 2022, on April 1, 2021 and as disclosed in Note 17, Steven Glaser, a director of the Company, participated in the Offering and received 30,000 Units for an aggregate subscription price of $10,125; and

e) During the year ended January 31, 2023, on July 29, 2022, an outstanding secured loan in the principal amount of $200,000, between the Company and an independent third party was assigned to a corporation controlled by the Chief Executive Officer of the Company (the "Related Loan"). This amount has been reflected in loans payable (Note 13). This loan is secured, bears interest at a nominal rate of 21.70% per annum, and due on demand. During the year ended January 31, 2023, interest on the Related Loan amounted to $22,116 (January 31, 2022 – $nil).

(Expressed in Canadian Dollars)

23. Income Taxes

a) Income tax expense:

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

	January 31, 2023	January 31, 2022
	$	$
Income (loss) before income taxes	**7,609,338**	(8,898,117)
Statutory income tax rate	**26.50%**	26.50%
Expected income taxes payable (recovery) at statutory income tax	**2,016,475**	(2,358,001)
Changes in income taxes resulting from:		
Temporary tax differences	**(48,967)**	2,045,039
Unrealized gain on acquisition of 273 Ontario	**(2,154,230)**	-
Other	**(25,085)**	-
Change in benefit of not recognized	**148,030**	259,815
Provision for income taxes (recovery)	**(63,777)**	(53,147)

b) Deferred income taxes:

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

	January 31, 2023	January 31, 2022
	$	$
Non-capital losses	**2,567,000**	2,419,000
Financing costs	**29,000**	35,000
Property and equipment	**8,500**	4,500
Intangible assets - trade name	**(839,726)**	(903,503)
Right of use assets and lease liabilities, net	**235,000**	238,500
Less: Unrecognized deferred tax assets	**(2,839,500)**	(2,697,000)
Total	**(839,726)**	(903,503)

The Company has capital losses carried forward of approximately $9,126,000 which will begin to expire in 2035 - 2042.

24. Comparative Amounts

Certain comparative figures have been reclassified to conform to these consolidated financial statements presented and adopted for the current period. Such reclassifications did not have an impact on the previously reported net income (loss) and comprehensive income (loss).

25. Subsequent Events

On May 15, 2023, the Company's common shares commenced trading on the CSE under the symbol "LOTA". In connection with the CSE listing, the Company submitted a request to voluntarily delist its common shares from the TSX Venture Exchange that became effective at the close of the market on May 16, 2023.