# Condensed Interim Consolidated Financial Statements

**For the Three and Six Months Ended July 31, 2024 and 2023**

(Unaudited – Expressed in Canadian Dollars)

# Delota Corp.
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# Delota Corp.
## Notice to Reader

Under National Instrument 51-102 "Continuous Disclosure Obligations", Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements.

**September 30, 2024**

# Delota Corp.
## Condensed Interim Consolidated Statements of Financial Position
As at July 31, 2024 and January 31, 2024
(Unaudited – Expressed in Canadian Dollars)

| | Notes | **July 31, 2024** **$** | January 31, 2024 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **2,849,629** | 1,753,355 |
| Accounts receivable | | **1,343,474** | 1,501,702 |
| Inventory | *5* | **2,544,071** | 2,509,102 |
| Prepaid expenses | | **229,454** | 211,398 |
| Net investment in sublease - current portion | *8* | **42,083** | 38,904 |
| Total current assets | | **7,008,711** | 6,014,461 |
| **Non-current assets** | | | |
| Intangible assets | *6* | **473,385** | 401,415 |
| Intangible assets - trade name | *6* | **2,807,778** | 2,928,111 |
| Property and equipment | *7* | **613,440** | 695,101 |
| Net investment in sublease | *8* | **234,792** | 256,660 |
| Right-of-use assets | *8* | **3,285,727** | 3,439,981 |
| Total non-current assets | | **7,415,122** | 7,721,268 |
| **Total assets** | | **14,423,833** | 13,735,729 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Trade and other payables | *9* | **5,100,004** | 4,630,018 |
| Lease liabilities | *10* | **1,091,465** | 1,059,713 |
| Contract liability | *11* | **475,525** | 310,154 |
| Government loan | *13* | **246,400** | 240,395 |
| Convertible debentures | *17* | **419,355** | - |
| Loans payable | *12, 20* | **530,379** | 545,379 |
| Total current liabilities | | **7,863,128** | 6,785,659 |
| **Non-current liabilities** | | | |
| Lease liabilities | *10* | **3,918,567** | 4,133,373 |
| Contract liability | *11* | **82,555** | 128,283 |
| Derivative liabilities | *19* | **1,361,573** | 1,408,712 |
| Convertible debentures | *17* | **-** | 119,355 |
| Deferred tax liability | | **744,061** | 775,949 |
| Total non-current liabilities | | **6,106,756** | 6,565,672 |
| **Total liabilities** | | **13,969,884** | 13,351,331 |
| **SHAREHOLDERS' EQUITY (DEFICIENCY)** | | | |
| Share capital | *14* | **7,832,560** | 7,592,481 |
| Warrant reserve | *16* | **99,398** | 99,398 |
| Contributed surplus | | **503,493** | 507,005 |
| Accumulated deficit | | **(7,981,502)** | (7,814,486) |
| **Total shareholders' equity (deficiency)** | | **453,949** | 384,398 |
| **Total liabilities and shareholders' equity (deficiency)** | | **14,423,833** | 13,735,729 |

Nature of Operations and Going Concern (Note 1)
Related Party Transactions (Note 20)

**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 condensed interim consolidated financial statements.

# Delota Corp.

## Condensed Interim Consolidated Statements of Operations and Comprehensive Income (Loss)

For the Three and Six Months Ended July 31, 2024 and 2023

(Unaudited - Expressed in Canadian Dollars)

| | Notes | **Three Months Ended July 31, 2024 $** | Three Months Ended July 31, 2023 $ | **Six Months Ended July 31, 2024 $** | Six Months Ended July 31, 2023 $ |
|---|---|---|---|---|---|
| **Revenue** | *22* | **9,757,783** | 8,300,152 | **19,641,666** | 15,830,461 |
| **Cost of goods sold** | *5* | **5,696,719** | 4,886,611 | **11,652,958** | 9,332,428 |
| **Gross profit** | | **4,061,064** | 3,413,541 | **7,988,708** | 6,498,033 |
| **Expenses** | | | | | |
| Salaries and wages | | **1,745,503** | 1,647,277 | **3,412,441** | 3,265,112 |
| Delivery | | **561,238** | 179,439 | **1,203,096** | 330,933 |
| Office and general | | **572,075** | 342,141 | **1,237,308** | 831,317 |
| Rent and utilities | | **211,144** | 228,682 | **425,084** | 498,008 |
| Professional fees | | **98,351** | 91,939 | **190,445** | 144,933 |
| Insurance | | **61,490** | 108,758 | **148,617** | 211,714 |
| Advertising and promotion | | **49,394** | 43,588 | **91,217** | 82,414 |
| Repairs and maintenance | | **33,221** | 10,595 | **37,248** | 33,015 |
| Stock-based compensation | *15* | **4,663** | 218,981 | **7,817** | 218,981 |
| Foreign exchange loss | | **6,903** | 6,962 | **16,229** | 13,329 |
| Depreciation | *7* | **55,886** | 70,945 | **113,430** | 141,803 |
| Depreciation of right-of-use assets | *8* | **266,229** | 313,226 | **531,027** | 634,090 |
| Amortization | *6* | **15,230** | 15,230 | **30,129** | 29,964 |
| Interest on loans payable | *12, 13, 17* | **53,927** | 26,783 | **107,845** | 51,285 |
| Interest on lease liabilities | *10* | **161,515** | 232,572 | **325,249** | 424,181 |
| Total expenses | | **3,896,769** | 3,537,118 | **7,877,182** | 6,911,079 |
| **Income (loss) from operations** | | **164,295** | (123,577) | **111,526** | (413,046) |
| Other income | | **30,129** | 10,819 | **62,764** | 25,121 |
| Accretion | *13, 17* | **(150,000)** | (5,569) | **(300,000)** | (10,803) |
| Fair value adjustment of derivative liabilities | *17, 19* | **340,970** | - | **47,139** | - |
| Amortization of intangible assets - trade name | *6* | **(60,166)** | (60,166) | **(120,333)** | (120,333) |
| **Income (loss) before income tax recovery** | | **325,228** | (178,493) | **(198,904)** | (519,061) |
| Deferred tax recovery | | **15,944** | 15,944 | **31,888** | 31,888 |
| **Net income (loss) and comprehensive income (loss)** | | **341,172** | (162,549) | **(167,016)** | (487,173) |
| **Earnings (loss) per share - basic** | | **0.01** | (0.01) | **(0.01)** | (0.02) |
| **Weighted average number of shares outstanding - basic** | | **29,051,190** | 26,933,486 | **28,976,974** | 26,872,912 |
| **Earnings (loss) per share - diluted** | | **0.01** | (0.01) | **(0.01)** | (0.02) |
| **Weighted average number of shares outstanding - diluted** | | **29,600,420** | 26,933,486 | **28,976,974** | 26,872,912 |

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

# Delota Corp.

**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**

For the Six Months Ended July 31, 2024 and 2023

(Unaudited – Expressed in Canadian Dollars)

| | Notes | Number of Common Shares # | Share Capital $ | Contributed Surplus $ | Warrant Reserve $ | Accumulated Deficit $ | Shareholders' Equity (Deficiency) $ |
|---|---|---|---|---|---|---|---|
| **Balance, January 31, 2023** | | **26,809,615** | **7,528,481** | **352,024** | **99,398** | **(5,821,910)** | **2,157,993** |
| Issuance of stock options and restricted share units | *15* | - | - | 218,981 | - | - | 218,981 |
| Common shares issued pursuant to grant of restricted share units | *14, 15* | 640,000 | 64,000 | (64,000) | - | - | - |
| Net loss for the period | | - | - | - | - | (487,173) | (487,173) |
| **Balance, July 31, 2023** | | **27,449,615** | **$ 7,592,481** | **$ 507,005** | **$ 99,398** | **$ (6,309,083)** | **$ 1,889,801** |
| | | | | | | | |
| **Balance, January 31, 2024** | | **27,449,615** | **7,592,481** | **507,005** | **99,398** | **(7,814,486)** | **384,398** |
| Issuance of stock options | *15* | - | - | 7,817 | - | - | 7,817 |
| Units issued for debt settlement | *14, 16* | 1,535,715 | 215,000 | - | - | - | 215,000 |
| Common shares issued pursuant to exercise of stock options | *14, 15* | 125,000 | 25,079 | (11,329) | - | - | 13,750 |
| Net loss for the period | | - | - | - | - | (167,016) | (167,016) |
| **Balance, July 31, 2024** | | **29,110,330** | **7,832,560** | **503,493** | **99,398** | **(7,981,502)** | **453,949** |

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

# Delota Corp.

**Condensed Interim Consolidated Statements of Cash Flows**

For the Six Months Ended July 31, 2024 and 2023

(Unaudited – Expressed in Canadian Dollars)

| | **July 31, 2024 $** | July 31, 2023 $ |
|---|---|---|
| **Operating activities** | | |
| Net loss for the period | **(167,016)** | (487,173) |
| Items not requiring an outlay of cash: | | |
| Accretion | **300,000** | 10,803 |
| Stock-based compensation | **7,817** | 218,981 |
| Deferred tax recovery | **(31,888)** | (31,888) |
| Depreciation | **113,430** | 141,803 |
| Depreciation of right-of-use assets | **531,027** | 634,090 |
| Amortization of intangible assets - trade name | **120,333** | 120,333 |
| Amortization | **30,129** | 29,964 |
| Finance income | **18,689** | - |
| Interest on lease liabilities | **325,249** | 424,181 |
| Fair value adjustment of derivative liabilities | **(47,139)** | - |
| **Change in non-cash working capital:** | | |
| Accounts receivable | **158,228** | (6,025) |
| Inventory | **(34,969)** | (900,014) |
| Prepaid expenses | **(18,056)** | 70,631 |
| Contract liability | **119,643** | 4,487 |
| Trade and other payables | **690,991** | 418,731 |
| **Cash flows provided by operating activities** | **2,116,468** | 648,904 |
| **Financing activities** | | |
| Proceeds from loans payable | **-** | 48,000 |
| Repayments of loans payable | **(15,000)** | (115,700) |
| Proceeds from exercise of stock options | **13,750** | - |
| Lease payments | **(885,076)** | (1,068,916) |
| **Cash flows used in financing activities** | **(886,326)** | (1,136,616) |
| **Investing activities** | | |
| Purchase of intangible assets | **(102,099)** | - |
| Purchase of property and equipment | **(31,769)** | - |
| **Cash flows used in investing activities** | **(133,868)** | - |
| **Increase (decrease) in cash during the period** | **1,096,274** | (487,712) |
| **Cash, beginning of period** | **1,753,355** | 1,271,482 |
| **Cash, end of period** | **2,849,629** | 783,770 |

*Non-cash transactions affecting cash flows from financing and investing activities (Note 21)*

The accompanying notes are an integral part of these condensed interim 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. The Company's common shares currently trade on the Canadian Securities Exchange ("CSE") under the symbol "NIC" and on the Frankfurt Stock Exchange under the symbol "S62". The Company's corporate and registered office is 7941 Jane Street, Unit 2, Concord, Ontario, L4K 2M7.

The Company is a nicotine vape enterprise that spearheads the smoke-free revolution in Canada, catering to adult consumers seeking alternatives to traditional combustible tobacco. With a strong emphasis on delivering exceptional retail experiences and carefully curated product offerings, the Company is dedicated to redefining the way people transition away from smoking. The Company's flagship brand, 180 Smoke Vape Store, stands as Ontario's largest omni-channel specialty vape retailer, fueling innovation, growth, and leadership in the nicotine vape and alternative tobacco sector. The Company currently operates 31 brick-and-mortar specialty vape stores in Ontario under the 180 Smoke Vape Store brand, a leading national e-commerce platform www.180smoke.ca, and 3 licenced dispensaries in Ontario under the Offside Cannabis brand.

These condensed interim 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 three and six months ended July 31, 2024, the Company had net income in the amount of $341,172 and a net loss of $167,016, respectively (July 31, 2023 – a net loss of $162,549 and $487,173, respectively), an accumulated deficit of $7,981,502 (January 31, 2024 – $7,814,486) as at July 31, 2024 and a working capital deficiency of $854,417 (January 31, 2024 – $771,198) as at July 31, 2024. As such, there is a material uncertainty related to these events and conditions that may cast significant doubt on the Company's 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 the Company receiving sufficient funding to support its operations. The Company intends to finance its future requirements through a combination of debt or equity financings. There is no assurance that the Company will be able to obtain such financings 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 July 31, 2024 and 2023, these condensed interim 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 condensed interim consolidated financial statements have been prepared in conformity with International Accounting Standards ("IAS") 34 – *Interim Financial Reporting* and do not include all information required for full annual consolidated financial statements in accordance with IFRS and should be read in conjunction with the audited consolidated financial statements for the years ended January 31, 2024 and 2023, which have been prepared using accounting policies consistent with IFRS as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee ("IFRIC").

These condensed interim consolidated financial statements were authorized for issuance by the Company's Audit Committee and its Board of Directors on September 30, 2024.

b) Basis of Measurement

These condensed interim 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 condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for certain cash flow information.

c) Functional and Presentation Currency

These condensed interim 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 condensed interim consolidated financial statements from the date that control commences until the date that control ceases. These condensed interim 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.; 1000712645 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.

## 2. Basis of Preparation (continued)

e) Use of Estimates and Judgements

The preparation of these condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these condensed interim 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. Material Accounting Policies

These condensed interim consolidated financial statements have been prepared using the same material accounting policies and methods as those used in the annual consolidated financial statements for the year ended January 31, 2024, as disclosed in Note 3 of those consolidated financial statements.

### Adoption of New Accounting Pronouncements

There were no new accounting pronouncements, amendments, or standards adopted in these condensed interim consolidated financial statements for the six months ended July 31, 2024.

### 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.

*Amendments to IAS 1: Covenants*

This amendment clarifies how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. This amendment is effective for annual periods beginning on or after January 1, 2024. Management is currently evaluating the potential impact of this standard on the Company's condensed interim consolidated financial statements.

*Amendments to IFRS 16: Leases*

This amendment clarifies how a seller-lessee measures sale and leaseback transactions that satisfy the requirements in *IFRS 15 – Revenue from Contracts with Customers* ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains that is effective for annual periods beginning on or after January 1, 2024. Management is currently evaluating the potential impact of this standard on the Company's condensed interim consolidated financial statements.

## 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 condensed interim 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.

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 condensed interim 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.

### 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)

### 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 the current period 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.

### 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.

### 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.

## 4. Use of Judgements and Estimates (continued)

### 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.

### 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 minimum 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.

### Going concern assumption

The Company's going concern presentation of the condensed interim consolidated financial statements assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due.

### Derivative liabilities

The Company measures the embedded derivative liabilities relating to the conversion feature of the convertible debentures and warrants issued using the Black-Scholes-Merton valuation model taking into account the features of the instrument and market data as at the grant date and on the basis of the Company's management assumptions.

(Unaudited – Expressed in Canadian Dollars)

## 5. Inventory

As at July 31, 2024 and January 31, 2024, the Company's inventory is comprised of the following:

| | July 31, 2024 | January 31, 2024 |
|---|---|---|
| | $ | $ |
| Raw materials | **162,930** | 165,528 |
| Finished goods | **2,381,141** | 2,343,574 |
| **Balance, July 31, 2024 and January 31, 2024** | **2,544,071** | 2,509,102 |

During the three and six months ended July 31, 2024, inventory expensed to cost of goods sold amounted to $5,696,719 and $11,652,958, respectively (July 31, 2023 – $4,886,611 and $9,332,428, respectively).

## 6. Intangible Assets

The Company's intangible assets include the costs to develop its website and enterprise resource planning software ("ERP"), as well as a trade name. Changes to the intangible assets balance during the six months ended July 31, 2024 and year ended January 31, 2024 consist of the following:

| | Website and ERP | Intangible assets in progress | Trade name | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost:** | | | | |
| **As at January 31, 2023** | **471,251** | **-** | **3,610,000** | **4,081,251** |
| Additions (disposals) | - | 101,838 | - | 101,838 |
| **As at January 31, 2024** | **471,251** | **101,838** | **3,610,000** | **4,183,089** |
| Additions (disposals) | - | 102,099 | - | 102,099 |
| **As at July 31, 2024** | **471,251** | **203,937** | **3,610,000** | **4,285,188** |
| **Accumulated amortization:** | | | | |
| **As at January 31, 2023** | **111,249** | **-** | **441,222** | **552,471** |
| Amortization | 60,425 | - | 240,667 | 301,092 |
| **As at January 31, 2024** | **171,674** | **-** | **681,889** | **853,563** |
| Amortization | 30,129 | - | 120,333 | 150,462 |
| **As at July 31, 2024** | **201,803** | **-** | **802,222** | **1,004,025** |
| **Carrying amount:** | | | | |
| As at January 31, 2024 | 299,577 | 101,838 | 2,928,111 | 3,329,526 |
| **As at July 31, 2024** | **269,448** | **203,937** | **2,807,778** | **3,281,163** |

During the three and six months ended July 31, 2024, the Company recorded amortization expense related to the website and ERP software in the amount of $15,230 and $30,129, respectively (July 31, 2023 – $15,230 and $29,964, respectively) and trade name in the amount of $60,166 and $120,333, respectively (July 31, 2023 – $60,166 and $120,333, respectively).

(Unaudited – Expressed in Canadian Dollars)

## 7. Property and Equipment

Property and equipment is comprised of the following:

| | Furniture and equipment<br>$ | Plant and machinery<br>$ | Computer equipment<br>$ | Leasehold improvements<br>$ | Signs and automobiles<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **As at January 31, 2023** | **391,342** | **34,226** | **49,804** | **1,181,494** | **52,606** | **1,709,47** |
| Additions | 4,500 | - | - | - | 3,150 | 7,650 |
| Disposals | - | - | - | - | - | - |
| **As at January 31, 2024** | **395,842** | **34,226** | **49,804** | **1,181,494** | **55,756** | **1,717,12** |
| Additions | 5,643 | - | - | 26,126 | - | 31,769 |
| Disposals | - | - | - | - | - | - |
| **As at July 31, 2024** | **401,485** | **34,226** | **49,804** | **1,207,620** | **55,756** | **1,748,89** |
| **Accumulated depreciation** | | | | | | |
| **As at January 31, 2023** | **122,730** | **11,091** | **35,529** | **533,204** | **45,128** | **747,682** |
| Depreciation | 48,171 | 6,240 | 6,738 | 206,570 | 6,620 | 274,339 |
| Disposals | - | - | - | - | - | - |
| **As at January 31, 2024** | **170,901** | **17,331** | **42,267** | **739,774** | **51,748** | **1,022,02** |
| Depreciation | 23,023 | 3,112 | 1,194 | 84,293 | 1,807 | 113,430 |
| Disposals | - | - | - | - | - | - |
| **As at July 31, 2024** | **193,924** | **20,443** | **43,461** | **824,067** | **53,555** | **1,135,45** |
| **Net book value ($)** | | | | | | |
| As at January 31, 2024 | 224,941 | 16,895 | 7,537 | 441,720 | 4,008 | 695,101 |
| **As at July 31, 2024** | **207,561** | **13,783** | **6,343** | **383,553** | **2,201** | **613,440** |

During the three and six months ended July 31, 2024, the Company recorded depreciation expense related to property and equipment in the amount of $55,886 and $113,430, respectively (July 31, 2023 – $70,945 and $141,803, respectively).

## 8. Right-of-use Assets

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

| | $ |
|---|---|
| **Balance, January 31, 2023** | **5,294,370** |
| Additions during the year | 76,678 |
| Disposals during the year | - |
| Derecognition upon entering into sublease | (686,012) |
| Depreciation during the year | (1,245,055) |
| **Balance, January 31, 2024** | **3,439,981** |
| Additions during the period | 376,773 |
| Disposals during the period | - |
| Depreciation during the period | (531,027) |
| **Balance, July 31, 2024** | **3,285,727** |

(Unaudited – Expressed in Canadian Dollars)

## 8. Right-of-use Assets (continued)

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

During the year ended January 31, 2024, the Company entered into sublease arrangements for two of its leased premises. This resulted in a derecognition of the right-of-use assets related to these leased premises in the amount of $686,012 and the recognition of a net investment in sublease during the year ended January 31, 2024.

The following table sets out a maturity analysis of the net investment in sublease, showing the undiscounted lease payments to be received after the reporting date.

| | **July 31, 2024** |
|---|---|
| | **$** |
| Less than one year | 81,816 |
| One to two years | 81,816 |
| Two to three years | 81,816 |
| Three to four years | 81,816 |
| Four to five years | 57,066 |
| More than five years | 8,136 |
| **Total undiscounted lease receivable** | **392,466** |
| Unearned finance income | 115,591 |
| **Net investment in the lease** | **276,875** |

Net investment in subleases represents leased retail stores that have been subleased to third parties. These subleases are classified as a finance lease as the sublease terms are for the remaining term of the head lease.

| | **July 31, 2024** | January 31, 2024 |
|---|---|---|
| **Net investment in lease analysed as:** | **$** | $ |
| Current portion | **42,083** | 38,904 |
| Long-term | **234,792** | 256,660 |

The current portion of the net investment in sublease has been classified as an investment in sublease – current portion on the condensed interim consolidated statements of financial position.

Net investment in subleases represents leased retail stores that have been subleased and have been classified as finance leases due to the sublease terms being for the remaining term of the head lease.

(Unaudited – Expressed in Canadian Dollars)

## 9. Trade and Other Payables

The Company's trade and other payables are comprised of the following:

| | **July 31, 2024** | January 31, 2024 |
|---|---|---|
| | **$** | $ |
| Accounts payable and accrued liabilities | **3,355,516** | 3,738,452 |
| Sales tax payable | **1,578,343** | 753,939 |
| Excise tax payable | **166,145** | 137,627 |
| **Balance, July 31, 2024 and January 31, 2024** | **5,100,004** | 4,630,018 |

## 10. 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. The following represents the Company's lease obligations as at July 31, 2024:

| | **$** |
|---|---|
| **Balance, January 31, 2023** | **6,181,272** |
| Additions during the year | 76,678 |
| Interest expense | 728,793 |
| Lease payments | (1,793,657) |
| **Balance, January 31, 2024** | **5,193,086** |
| Additions during the period | 376,773 |
| Interest expense | 325,249 |
| Lease payments | (885,076) |
| **Balance, July 31, 2024** | **5,010,032** |

Summary:

| | **July 31, 2024 $** | January 31, 2024 $ |
|---|---|---|
| Current portion of lease liabilities | **1,091,465** | 1,059,713 |
| Non-current lease liabilities | **3,918,567** | 4,133,373 |
| **Balance, July 31, 2024 and January 31, 2024** | **5,010,032** | 5,193,086 |

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 July 31, 2024 are as follows:

| | |
|---|---|
| One year | $ 1,645,348 |
| Between two to five years | $ 3,972,779 |
| More than five years | $ nil |

(Unaudited – Expressed in Canadian Dollars)

## 11. Contract Liability

Contract liability relates to deferred revenue consisting of loyalty programs, franchise fee revenue, and service fee revenue. As at July 31, 2024, this contract liability amounted to $558,080 (January 31, 2024 – $438,437). The Company received advanced payments from customers in the amount of $340,078 (July 31, 2023 – $222,674) and recognized performance obligations in the amount of $220,435 (July 31, 2023 – $193,765) during the six months ended July 31, 2024. The current portion of this contract liability amounted to $475,525 and the long-term portion of this contract liability amounted to $82,555 (January 31, 2024 – $310,154 and $128,283, respectively). Details of the Company's contract liability is noted as follows:

| | $ |
|---|---|
| **Balance, January 31, 2023** | **411,558** |
| Additions during the year | 473,444 |
| Revenue recognized from contract liability | (446,565) |
| **Balance, January 31, 2024** | **438,437** |
| Additions during the period | 340,078 |
| Revenue recognized from contract liability | (220,435) |
| **Balance, July 31, 2024** | **558,080** |

## 12. Loans Payable

Loans payable are comprised of the following:

| | **July 31, 2024** $ | January 31, 2024 $ |
|---|---|---|
| Operating facility, interest bearing at 15% per annum, secured and due on demand. | **160,780** | 160,780 |
| Loan facility, interest bearing at 21.70% per annum, secured and due on demand. This is a non-arms length promissory note payable to the CEO of the Company. | **100,000** | 100,000 |
| Promissory note, unsecured, interest bearing at 12% per annum and due on demand. This is a non arms-length promissory note payable to the chairman of the Company. | **26,800** | 26,800 |
| Promissory note, unsecured, interest bearing at 24% per annum and due on demand. This is a non arms-length promissory note payable to a family member of the chairman of the Company. | **22,350** | 22,350 |
| Promissory note, unsecured, interest bearing at 12% per annum and due on demand. This is a non arms-length promissory note payable to a family member of the chairman of the Company. | **25,000** | 25,000 |
| Promissory note, secured, interest bearing at 21.70% per annum and due on demand. This is a non arms-length promissory note payable to a family member of the chairman of the Company. | **176,449** | 176,449 |
| Promissory note, secured, non-interest bearing and due on demand. This is a non arms-length promissory note payable to the chairman of the Company. | **19,000** | 34,000 |
| **Balance, July 31, 2024 and January 31, 2024** | **530,379** | 545,379 |

## 12. Loans Payable (continued)

Interest expense on loans payable amounted to $23,927 and $47,840, respectively (July 31, 2023 – $26,783 and $51,285, respectively), during the three and six months ended July 31, 2024.

As at July 31, 2024, interest payable on these loans amounted to $282,787 (January 31, 2024 – $249,004) which has been included in accounts payable and accrued liabilities on the condensed interim consolidated statements of financial position.

Included in loans payable are amounts due to related parties (Note 20).

## 13. 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. If two-thirds of the outstanding CEBA Loan was paid on or before January 18, 2024, the remaining one-third will be forgiven. The Company discounted the CEBA Loan during the interest-free loan period at the Company's specific business unit's incremental borrowing rate. During the year ended January 31, 2024, the Company repaid one of the five CEBA Loans. The remaining four CEBA Loans converted into interest-bearing loans at a rate of 5% per annum.

During the three and six months ended July 31, 2024, the Company recorded interest expense on the CEBA Loans in the amount of $3,000 and $6,005, respectively (July 31, 2023 – $nil). Accretion expense on the CEBA Loan during the three and six months ended July 31, 2024 amounted to $nil (July 31, 2023 – $5,569 and $10,803, respectively). As at July 31, 2024, the CEBA Loan amounted to $246,400 (January 31, 2024 – $240,395).

## 14. Share Capital

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

During the six months ended July 31, 2024, the Company had the following common share transactions:

- On February 5, 2024, the Company completed debt settlements in the aggregate amount of $215,000 with certain officers, directors, and consultants of the Company to preserve the Company's cash for working capital through the issuance of 1,535,715 units of the Company (each, a "Settlement Unit") at a price of $0.14 per Settlement Unit. Each Settlement Unit consisted of one common share of the Company and one common share purchase warrant of the Company. Each warrant entitles the holder thereof to purchase one common share of the Company at a price of $0.15 per share for a period of 24 months from the date of issuance. The Company is using the residual value method with respect to the valuation of warrants issued as part of the debt settlement. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. No value was assigned to the warrants as, under the residual value method, the fair value of the shares was equal to the price per Unit (Note 16); and

## 14. Share Capital (continued)

- On June 12, 2024 and in connection with the exercise of previously issued stock options (Note 15 (b)), the Company issued 125,000 common shares at a value of $0.11 per share to an employee of the Company. As a result of this exercise, $11,329 was transferred from contributed surplus to share capital.

During the year ended January 31, 2024, the Company had the following common share transactions.

- On July 13, 2023 and in connection with the grant of RSUs (Note 15 (b)), the Company issued 640,000 common shares at a value of $0.10 per share to certain directors, officers, employees, and consultants of the Company.

The Company is authorized to issue 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 July 31, 2024, January 31, 2024 and 2023, no preferred shares were issued and outstanding.

## 15. 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 issuance 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 issuance 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 issuance 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 issuance 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.

(Unaudited – Expressed in Canadian Dollars)

## 15. Share-based Payments (continued)

The following is a continuity of the Company's Options for the six months ended July 31, 2024 and year ended January 31, 2024:

| | Options Outstanding (#) | Weighted Average Exercise Price ($) | Weighted Average Life Remaining (Years) |
|---|---|---|---|
| **Balance, January 31, 2023** | **735,000** | **0.50** | **1.33** |
| Granted | 1,710,000 | 0.11 | 3.50 |
| Expired | (225,000) | 0.50 | - |
| **Balance, January 31, 2024** | **2,220,000** | **0.20** | **2.42** |
| Granted | 150,000 | 0.20 | 1.75 |
| Exercised | (125,000) | 0.11 | 3.50 |
| Expired | - | - | - |
| **Balance, July 31, 2024** | **2,245,000** | **0.20** | **2.37** |
| **Exercisable, July 31, 2024** | **2,132,500** | **0.20** | **2.41** |

A summary of the Company's Options outstanding as at July 31, 2024 is as follows:

| Grant Date | Expiry Date | Options Outstanding | Options Exercisable | Exercise Price | Weighted Average Life (Years) |
|---|---|---|---|---|---|
| 21-May-21 | 21-May-25 | 510,000 | 510,000 | $0.50 | 0.81 |
| 10-Jul-23 | 10-Jul-27 | 1,585,000 | 1,585,000 | $0.11 | 2.94 |
| 14-Mar-24 | 14-Mar-26 | 150,000 | 37,500 | $0.20 | 1.62 |

### (a) Option Grants

During the six months ended July 31, 2024, the Company had the following stock options transactions:

On March 14, 2024, the Company granted Options to a consultant for the purchase of up to 150,000 common shares of the Company to a consultant that are exercisable for a period of two years from the date of issuance with an exercise price of $0.20 per share. These issued Options vest over a period of one year in four equal instalments, every three months following the date of grant.

The fair value of these issued Options was determined using the Black-Scholes-Merton option pricing model with the following range of assumptions:

| | |
|---|---|
| Risk-free interest rate: | 4.25 % |
| Expected life: | 2 years |
| Estimated volatility in the market price of the common shares: | 92 % |
| Dividend yield: | Nil |

During the three and six months ended July 31, 2024, the Company expensed $4,663 and $7,817, respectively (July 31, 2023 – $nil), in the fair value of the above Options as a result of the above issuance which has been recorded as stock-based compensation.

(Unaudited – Expressed in Canadian Dollars)

## 15. Share-based Payments (continued)

During the year ended January 31, 2024, the Company had the following stock options transactions:

On July 11, 2023, the Company issued Options for the purchase of up to 1,710,000 common shares of the Company, to certain Company's directors, officers, employees, and consultants. These Options are exercisable for a period of four years from the date of issuance with an exercise price of $0.11 per share.

The fair value of these issued Options was determined using the Black-Scholes-Merton option pricing model with the following range of assumptions:

| | | |
|---|---|---|
| Risk-free interest rate: | 4.00 | % |
| Expected life: | 4 years | |
| Estimated volatility in the market price of the common shares: | 166 | % |
| Dividend yield: | Nil | |

There was no stock-based compensation expense recorded in relation to the above Options during the three and six months ended July 31, 2024 (July 31, 2023 – $154,981).

### (b) Restricted Share Units

During the six months ended July 31, 2024, the Company did not issue any RSUs.

During the year ended January 31, 2024, the Company had the following RSU transactions:

On July 10, 2023, the Company granted 640,000 RSUs to certain Company's directors, officers, employees, and consultants, vesting immediately. These RSUs were valued at $0.10 per RSU, based on the market value of the Company's common shares at the time of issuance for total consideration of $64,000. On July 13, 2023, these RSUs were converted into common shares of the Company, which resulted in $64,000 being transferred from contributed surplus to share capital.

During the three and six months ended July 31, 2024, the Company expensed $nil of the fair value of RSUs (July 31, 2023 – $64,000) as a result of the above issuance which has been recorded as stock-based compensation.

(Unaudited – Expressed in Canadian Dollars)

## 16. Warrants

The following is a continuity of the Company's warrants for the six months ended July 31, 2024 and year ended January 31, 2024:

| | Warrants Outstanding (#) | Weighted Average Exercise Price ($) | Weighted Average Life Remaining (Years) |
|---|---|---|---|
| **Balance, January 31, 2023** | **2,962,956** | **0.68** | **0.16** |
| Granted | 9,000,000 | 0.15 | 3.00 |
| Expired | (2,962,956) | 0.68 | - |
| **Balance, January 31, 2024** | **9,000,000** | **0.15** | **2.38** |
| Granted | 1,535,715 | 0.15 | 1.75 |
| Expired | - | - | - |
| **Balance, July 31, 2024** | **10,535,715** | **0.15** | **2.26** |
| **Exercisable, July 31, 2024** | **10,535,715** | **0.15** | **2.26** |

During the six months ended July 31, 2024, the Company issued an aggregate of 1,535,715 common share purchase warrants of the Company in connection with the issuance of the Settlement Units (Note 14).

During the year ended January 31, 2024, an aggregate of 2,962,956 warrants expired, unexercised. The Company issued an aggregate of 9,000,000 common share purchase warrants of the Company in connection with the issuance of Debenture Units (Note 17) during the year ended January 31, 2024.

A summary of the Company's share purchase warrants outstanding as at July 31, 2024 is as follows:

| Grant Date | Expiry Date | Warrants Outstanding | Warrants Exercisable | Exercise Price | Weighted Average Life (Years) |
|---|---|---|---|---|---|
| 19-Dec-23 | 19-Dec-26 | 9,000,000 | 9,000,000 | $0.15 | 2.39 |
| 05-Feb-24 | 05-Feb-26 | 1,535,715 | 1,535,715 | $0.15 | 1.52 |

## 17. Convertible Debentures

On December 19, 2023, the Company closed a non-brokered private placement (the "Offering") of senior secured convertible debenture units (the "Debenture Units") of the Company for aggregate gross proceeds of $900,000. In connection with the Offering, the Company issued an aggregate of 900 Debenture Units to subscribers at a price of $1,000 per Debenture Unit. Each Debenture Unit consisted of: (i) a $1,000 principal senior secured convertible debenture (each a "Debenture"); and (ii) 10,000 common share purchase warrants of the Company (each a "Debenture Warrant"). The Debentures mature on June 19, 2025 and bear interest at a rate of 1% per month, beginning on the date of issuance and payable in cash on the last day of each calendar month. The principal sum of the Debentures, or any portion thereof, and any accrued but unpaid interest, may be converted into common shares of the Company at the option of the holder at any time prior to the maturity date at a conversion price of $0.10 per share, subject to adjustments as described below.

(Unaudited – Expressed in Canadian Dollars)

## 17. Convertible Debentures (continued)

Each Debenture Warrant entitles the holder to purchase one common share of the Company until December 19, 2026 at an exercise price of $0.15 per share, subject to adjustment as described below. An aggregate of 9,000,000 Debenture Warrants were issued in connection with the Offering of Debenture Units. The conversion feature in the Debentures and exercise price of the Debenture Warrants have a rachet provision which could result in repricing of the conversion price or exercise price, as applicable and conditional upon compliance with the policies of the CSE, if the Company were to issue any common shares at a price less than $0.10 per share, or if any convertible instruments, stock options, share purchase warrants, or RSUs are issued at an exercise price less than $0.15 per share (collectively, the "Rachet Provision"). The obligations under the Debentures are collaterally secured by a general security agreement from the Company and its wholly-owned subsidiaries, 2360149 Ontario Inc., 180 VFC Inc., 1000712645 Ontario Inc., and Spyder Cannabis Subco Inc. (collectively, the "Guarantors") and a pledge of the security interests of the Guarantors.

The Debenture Units were determined to be a compound instrument, comprising of a liability and embedded derivative liabilities consisting of the conversion feature of the Debentures and the exercise price of the Debenture Warrants as a result of the Rachet Provision. The fair value of the embedded derivative liability components were estimated using the Black-Scholes-Merton valuation model using the assumptions disclosed in Note 19. Using the residual method, the carrying amount of the debt component is the difference between the principal amount, less debt issuance costs, and the initial fair value of the embedded derivative liabilities. The carrying value of the Debentures has been accreted using the effective interest rate method over the term of the Debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity. The embedded derivative liabilities are carried at fair market value with changes in fair value recorded in the condensed interim consolidated statements of operations and comprehensive income (loss). In connection with the issuance of the Debentures Units, the Company incurred debt issuance costs of $57,500, which was amortized over the term of the Debentures.

| | $ |
|---|---|
| **Proceeds from issuance of convertible debentures** | **900,000** |
| Debt issuance costs | (57,500) |
| Amount classified as embedded derivative liability (Note 19) | (842,500) |
| **Amount classified as convertible debenture at amortised cost** | **-** |
| Accretion of convertible debenture and debt issuance costs | 119,355 |
| **Carrying amount of convertible debt as at January 31, 2024** | **119,355** |
| Accretion of convertible debenture and debt issuance costs | 300,000 |
| **Carrying amount of convertible debt as at July 31, 2024** | **419,355** |

In connection with the Debentures, the Company incurred interest expense in the amount of $27,000 and $54,000, respectively (July 31, 2023 – $nil), and accretion expense in the amount of $150,000 and $300,000, respectively (July 31, 2023 – $nil), during the three and six months ended July 31, 2024.

## 18. 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 July 31, 2024, the Company's shareholders' equity amounted to $453,949 (January 31, 2024 – $384,398) which included an accumulated deficit of $7,981,502 (January 31, 2024 – $7,814,486).

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 six months ended July 31, 2024. The Company is not subject to any external capital requirements.

## 19. 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.

The following is a summary of financial instruments measured at fair value segregated based on various levels of inputs.

(Unaudited – Expressed in Canadian Dollars)

## 19. Financial Instruments and Risk Assessment (continued)

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| **As at July 31, 2024** | | | | |
| Cash | 2,849,629 | - | - | 2,849,629 |
| Accounts receivable | 1,343,474 | - | - | 1,343,474 |
| Trade and other payables | 5,100,004 | - | - | 5,100,004 |
| Government loan | 246,400 | - | - | 246,400 |
| Loans payable | 530,379 | - | - | 530,379 |
| Derivative liabilities | - | - | 1,361,573 | 1,361,573 |
| Convertible debentures | - | 419,355 | - | 419,355 |
| **As at January 31, 2024** | | | | |
| Cash | 1,753,355 | - | - | 1,753,355 |
| Accounts receivable | 1,501,702 | - | - | 1,501,702 |
| Trade and other payables | 4,630,018 | - | - | 4,630,018 |
| Government loan | 240,395 | - | - | 240,395 |
| Loans payable | 545,379 | - | - | 545,379 |
| Derivative liabilities | - | - | 1,408,712 | 1,408,712 |
| Convertible debentures | - | 119,355 | - | 119,355 |

Financial instruments of the Company consist of cash, accounts receivable, trade and other payables, government loan, loans payable, derivative liabilities, and convertible debentures. There are no significant differences between the carrying amounts of the current assets and current liabilities reported on the condensed interim 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 July 31, 2024 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 uses the Black-Scholes-Merton valuation model to estimate fair value of the derivative liabilities at each reporting period. This is a level 3 reoccurring fair value measurement. The key level 3 inputs used by management to determine the fair value are the expected future volatility in the price of the Company's shares and the expected life of the convertible debentures. The Company believes that a 1% difference in the inputs used for this fair value measurement would not cause a material difference to the fair value.

(Unaudited – Expressed in Canadian Dollars)

## 19. Financial Instruments and Risk Assessment (continued)

The following range of assumptions were used to value the embedded derivative liabilities during the six months ended July 31, 2024 and year ended January 31, 2024:

| | |
|---|---|
| Stock price: | $0.10 - $0.16 |
| Risk-free interest rate: | 3.59 - 4.45% |
| Expected life: | 0.89 - 3 years |
| Estimated volatility in the market price of the common shares: | 86% - 144 % |
| Dividend yield: | Nil |

Transactions related to the Company's derivative liabilities during the six months ended July 31, 2024 and year ended January 31, 2024 are comprised of the following:

| | Conversion Feature $ | Warrant Liability $ | Total $ |
|---|---|---|---|
| **As at February 1, 2023** | - | - | - |
| Fair value of embedded derivative liabilities on issuance date *(Note 17)* | 318,833 | 523,667 | 842,500 |
| Fair value change in embedded derivative liabilities during the year | 324,396 | 241,816 | 566,212 |
| **As at January 31, 2024** | **643,229** | **765,483** | **1,408,712** |
| Fair value change in embedded derivative liabilities during the period | (9,509) | (37,630) | (47,139) |
| **As at July 31, 2024** | **637,720** | **737,853** | **1,361,573** |

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 associated with its customers is limited to $1,343,474 (January 31, 2024 – $1,501,702), the balance held as at July 31, 2024. 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.

(Unaudited – Expressed in Canadian Dollars)

## 19. Financial Instruments and Risk Assessment (continued)

The following is an analysis of the contractual maturities of the Company's financial liabilities:

| | 1 year | 2 to 5 years | >5 years | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **July 31, 2024** | | | | |
| Trade and other payables | 5,100,004 | - | - | 5,100,004 |
| Lease liabilities | 1,645,348 | 3,972,779 | - | 5,618,127 |
| Government loan | - | 246,400 | - | 246,400 |
| Loans payable | 530,379 | - | - | 530,379 |
| Convertible debentures | 900,000 | - | - | 900,000 |
| **January 31, 2024** | | | | |
| Trade and other payables | 4,630,018 | - | - | 4,630,018 |
| Lease liabilities | 1,635,900 | 4,593,692 | 40,767 | 6,270,359 |
| Government loan | - | 240,395 | - | 240,395 |
| Loans payable | 545,379 | - | - | 545,379 |
| Convertible debentures | - | 900,000 | - | 900,000 |

### 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 July 31, 2024, 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.

(Unaudited – Expressed in Canadian Dollars)

## 20. 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 three and six months ended July 31, 2024 and 2023 is as follows:

| | **Three Months Ended July 31, 2024 $** | Three Months Ended July 31, 2023 $ | **Six Months Ended July 31, 2024 $** | Six Months Ended July 31, 2023 $ |
|---|---|---|---|---|
| Salaries and other short-term employee benefits | **197,323** | 194,360 | **385,459** | 381,168 |
| Car allowance to director | **3,024** | 3,024 | **6,402** | 6,402 |
| Director fees | **13,500** | 13,500 | **27,000** | 27,000 |
| Share-based compensation | - | 136,164 | - | 136,164 |
| | **213,847** | 347,048 | **418,861** | 550,734 |

Related party transactions for the three and six months ended July 31, 2024 and 2023 and the balances as at July 31, 2024 and January 31, 2024, not disclosed elsewhere in these condensed interim consolidated financial statements are as follows:

a) Included in accounts payable and accrued liabilities is interest payable in the amount of $134,338 (January 31, 2024 – $112,581) to related parties of the Company as at July 31, 2024. This interest payable is related to the Company's loans payable (Note 12) bearing between 12% - 24%, with no set terms of repayment.

b) A loan payable in the principal amount of $100,000 was owing to corporation controlled by the Chief Executive Officer of the Company. The remaining related party loans payable were owing to the chairman of the Company and relatives of the chairman of the Company and the CEO of the Company;

c) Included in trade and other payables as at July 31, 2024 is $279,305 (January 31, 2024 – $378,860) due to officers and directors of the Company and relatives of those directors; and

d) The Company had debt settlement transactions with directors and officers of the Company in the aggregate amount of $165,000 (Note 14).

(Unaudited – Expressed in Canadian Dollars)

## 21. Non-cash transactions affecting cash flows from financing and investing activities

During the six months ended July 31, 2024, the Company had the following non-cash transactions from investing and financing activities:

- The Company issued Options (Note 15);
- The Company issued Settlement Units comprising of common shares and common share purchase warrants for the settlement of debt (Note 14, 16); and
- The Company issued common shares as a result of an exercise of stock options exercised by an employee of the Company (Note 14, 15).

During the six months ended July 31, 2023, the Company had the following non-cash transactions from investing and financing activities:

- The Company issued RSUs and Options (Note 15) and common shares as a result of the issuance of RSUs (Note 14).

## 22. Operating Segments

The Company has assessed that it operates in only one operating segment, being retail. The chief operating decision maker ("CODM") is the Chief Executive Officer of the Company, who reviews, assesses, and allocates resources on the total operations. The Company segregates total revenue as follows:

| | **Three Months Ended July 31, 2024** | Three Months Ended July 31, 2023 | **Six Months Ended July 31, 2024** | Six Months Ended July 31, 2023 |
|---|---|---|---|---|
| | **$** | $ | **$** | $ |
| 180 Smoke – Vape (B2C – Direct to Consumer) | **7,653,446** | 5,573,343 | **15,472,965** | 10,313,695 |
| 180 Smoke – Vape (B2B – Franchise, Wholesale and Partnership) | **1,204,925** | 1,628,085 | **2,425,337** | 3,510,659 |
| Offside Cannabis – Cannabis (B2C – Direct to Consumer) | **899,412** | 1,098,724 | **1,743,364** | 2,006,107 |
| **Total revenue** | **9,757,783** | 8,300,152 | **19,641,666** | 15,830,461 |

During the three and six months ended July 31, 2024 and 2023, the Company had no sales to any customer exceeding 10% of total revenue.

## 23. Comparative Amounts

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