

# **HAPPY SUPPLEMENTS INC.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021**

**(EXPRESSED IN CANADIAN DOLLARS)**

**(UNAUDITED – PREPARED BY MANAGEMENT)**

**NOTICE OF NO AUDITOR REVIEW OF THE  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company for the nine months ended September 30, 2021 have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors.

**HAPPY SUPPLEMENTS INC.**  
**Condensed Interim Consolidated Statements of Financial Position**  
**As at September 30, 2021 and December 31, 2020**  
**(Expressed in Canadian Dollars)**  
**(Prepared by Management)**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Current		
Cash	\$ 2,075,675	\$ 308,849
GST receivable	55,689	12,122
Inventory (Note 6)	16,251	21,817
Prepaid expenses	98,106	99,539
Due from related party (Note 8)	176,704	58,544
	<b>\$ 2,422,425</b>	<b>\$ 500,871</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities (Notes 7 and 8)	\$ 281,431	\$ 120,744
Loan payable – current portion (Note 9)	60,087	43,168
	341,518	163,912
Loan payable (Note 9)	-	15,426
	341,518	179,338
<b>Shareholders' Equity</b>		
Share capital (Note 10)	11,100,127	7,265,559
Reserves	3,660,682	1,941,352
Accumulated other comprehensive income	41,560	65,226
Deficit	(12,721,462)	(8,950,604)
	2,080,907	321,533
	<b>\$ 2,422,425</b>	<b>\$ 500,871</b>

Going concern (Note 2)  
Subsequent events (Note 14)

Authorized for issuance on behalf of the Board on November 12, 2021:

\_\_\_\_\_  
*"Joel Shacker"* Director

\_\_\_\_\_  
*"Geoff Balderson"* Director

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

**HAPPY SUPPLEMENTS INC.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
**For the three and nine months ended September 30, 2021 and August 31, 2020**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

	For the three months ended September 30,		For the three months ended August 31,		For the nine months ended September 30,		For the nine months ended August 31,	
	2021		2020		2021		2020	
			(Note 13)				(Note 13)	
<b>Revenue</b>	\$	1,810	\$	17,941	\$	14,027	\$	91,855
<b>Cost of sales</b>		18		91,603		5,356		139,382
<b>Gross margin (loss)</b>		1,792		(73,662)		8,671		(47,527)
<b>Operating expenses</b>								
Advertising and marketing		445,836		84,050		449,343		383,614
Bank charges and interest		1,315		4,386		5,636		5,641
Computer and internet		159		473		15,475		2,363
Consulting fees (Note 8)		844,359		-		960,014		-
Office and miscellaneous		18,900		30,034		39,229		63,367
Professional fees		34,559		61,413		264,362		187,342
Rent		9,000		-		16,000		-
Shareholder communications		6,000		-		8,055		-
Share based compensation		1,810,000		1,894,388		1,810,000		1,894,388
Transfer agent and filing fees		10,520		-		36,359		-
Travel and promotions (recovery)		145		(1,302)		42,208		8,006
Wages and benefits (Note 8)		457		61,293		132,848		334,626
		3,181,250		2,134,735		3,779,529		2,879,347
<b>Net loss before other items</b>		(3,179,458)		(2,208,397)		(3,770,858)		(2,926,874)
<b>Other Items</b>								
Other income		-		10,840		-		24,428
<b>Net loss for the period</b>		(3,179,458)		(2,197,557)		(3,770,858)		(2,902,446)
<b>Other comprehensive income (loss)</b>								
Exchange difference on translating foreign operations		3,993		54,807		(23,666)		161,695
<b>Comprehensive loss for the period</b>	\$	(3,175,465)	\$	(2,142,750)	\$	(3,794,524)	\$	(2,740,751)
<b>Loss per share – basic and diluted</b>	\$	(0.07)	\$	(0.06)	\$	(0.09)	\$	(0.13)
<b>Weighted average number of common shares outstanding – basic and diluted</b>		43,111,893		34,468,616		41,804,720		22,718,993

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

**HAPPY SUPPLEMENTS INC.**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
**For the nine months ended September 30, 2021 and August 31, 2020**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

	Share Capital		Amount	Reserves	Deficit	AOCI	Total
	Number of Common Shares	Number of Membership Units					
<b>Balance, August 31, 2019</b>	-	<b>13,000,000</b>	<b>\$ 1,250,000</b>	<b>\$ -</b>	<b>\$ (4,008,643)</b>	<b>\$ -</b>	<b>\$ (2,758,643)</b>
Contributions	-	2,667,636	666,909	-	-	-	666,909
Net and comprehensive loss for the period	-	-	-	-	(708,908)	(95,860)	(804,768)
<b>Balance, November 30, 2020</b>	-	<b>15,667,636</b>	<b>1,916,909</b>	<b>-</b>	<b>(4,717,551)</b>	<b>(95,860)</b>	<b>(2,896,502)</b>
Contributions	-	1,800,980	450,245	-	-	-	450,245
Conversion of membership units to shares	17,468,616	(17,468,616)	-	-	-	-	-
Shares issued upon conversion of debt	17,000,000	-	3,366,016	-	-	-	3,366,016
Warrants granted	-	-	-	1,825,387	-	-	1,825,387
Net and comprehensive loss for the period	-	-	-	-	(2,902,446)	37,958	(3,545,519)
<b>Balance, August 31, 2020 (Note 13)</b>	<b>34,498,616</b>	-	<b>5,733,170</b>	<b>1,825,387</b>	<b>(7,619,997)</b>	<b>65,835</b>	<b>4,395</b>
<b>Balance, December 31, 2020</b>	<b>40,712,658</b>	-	<b>\$ 7,265,559</b>	<b>\$ 1,941,352</b>	<b>\$ (8,950,604)</b>	<b>\$ 65,226</b>	<b>\$ 321,533</b>
Shares issued in private placement, net of share issuance cost and subscription receivable	4,160,520	-	3,297,000	-	-	-	3,297,000
Exercise of stock options	45,000	-	14,400	-	-	-	14,400
Exercise of share purchase warrants	1,070,000	-	428,000	-	-	-	428,000
Exercise of broker warrants	17,990	-	4,498	-	-	-	4,498
Share based compensation	-	-	-	1,810,000	-	-	1,810,000
Transfer of fair value on stock options exercised	-	-	8,247	(8,247)	-	-	-
Transfer of fair value on warrants exercised	-	-	79,961	(79,961)	-	-	-
Transfer of fair value on broker warrants exercised	-	-	2,462	(2,462)	-	-	-
Net and comprehensive loss for the period	-	-	-	-	(3,770,858)	(23,666)	(3,794,524)
<b>Balance, September 30, 2021</b>	<b>46,006,168</b>	-	<b>\$ 11,100,127</b>	<b>\$ 3,660,682</b>	<b>\$ (12,721,462)</b>	<b>\$ 41,560</b>	<b>\$ 2,080,907</b>

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

**HAPPY SUPPLEMENTS, INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2021 and August 31, 2020**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

	For the nine months ended September 30, 2021	For the nine months ended August 31, 2020
		(Note 13)
<b>Operating activities</b>		
Net loss	\$ (3,770,858)	\$ (2,902,446)
Items not involving cash:		
Foreign exchange	(8,089)	108,079
Share based compensation	1,810,000	1,894,388
Changes in non-cash working capital balances:		
Receivables	(43,567)	-
Inventory	5,566	155,870
Prepaid expenses	1,433	(70,940)
Due from related party	(118,160)	(5,846)
Accounts payable and accrued liabilities	160,687	32,294
<b>Cash used in operating activities</b>	<b>(1,962,988)</b>	<b>(788,601)</b>
<b>Financing activities</b>		
Proceeds from issuance of shares, net of share issue costs	3,743,898	450,245
Proceeds (repayment) from loan payable	-	85,405
Interest paid on repayment of loan payable	749	-
<b>Cash provided by financing activities</b>	<b>3,744,647</b>	<b>535,650</b>
<b>Change in cash</b>	<b>1,781,659</b>	<b>(252,951)</b>
<b>Effect of foreign exchange on cash</b>	<b>(14,833)</b>	<b>3,610</b>
<b>Cash, beginning</b>	<b>308,849</b>	<b>270,995</b>
<b>Cash, ending</b>	<b>\$ 2,075,675</b>	<b>\$ 21,654</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the period		
Interest	\$ 749	\$ -
Income taxes	\$ -	\$ -
Fair value transferred on exercise of stock options	\$ 8,247	\$ -
Fair value transferred on exercise of warrants	\$ 79,961	\$ -
Fair value transferred on exercise of broker warrants	\$ 2,462	\$ -

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

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**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

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**1. NATURE OF OPERATIONS**

Happy Supplements Inc. (the “Company”) (formerly: Viking Gold Exploration Inc.) was incorporated under the laws of the Province of Ontario, and on August 6, 2019, was continued into British Columbia. The Company has the principal address at 1606 Camerbur Dr., Orlando, Florida, U.S.A. and registered office and records office at 1199 West Hastings Street, Suite 800, Vancouver, British Columbia, Canada, V6E 3T5.

On December 11, 2020, the Company completed a reverse takeover (“RTO”) transaction with Happy Supplements Inc. (“Happy”) (formerly Happy Supplement, LLC), a Delaware corporation formed in September 2018, as further described in Note 5. On December 14, 2020, the Company’s common shares commenced trading on the Canadian Securities Exchange under the symbol “FITT”. On August 12, 2021, the Company changed the trading symbol to “HAPY” effective August 16, 2021.

The Company is in the business of selling nutritional supplements which utilize natural hemp extract, branded as Happy Tea Powder and Happy Tea Shots.

**2. BASIS OF PREPARATION**

**(a) Statement of Compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 12, 2021.

**(b) Basis of Measurement**

The condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in Note 3 of the audited consolidated financial statements as at December 31, 2020. In addition, these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The condensed interim consolidated financial statements are presented in Canadian dollars, unless otherwise noted.

**(c) Going Concern**

These condensed interim consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company was not expected to continue operations for the foreseeable future. At September 30, 2021, the Company has not achieved profitable operations, has accumulated losses of \$12,721,462 since inception and expects to incur further losses in the development of its business.

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**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**2. BASIS OF PREPARATION – (cont'd)**

**(c) Going Concern – (cont'd)**

There was a global pandemic outbreak of COVID-19. To date, there have been a large number of temporary business closures, quarantines and a general reduction in consumer activity in Canada. The outbreak has caused companies and various governmental bodies to impose travel, gathering and other public health restrictions. While these effects are expected to be temporary, the duration of the various disruptions to businesses locally and internationally and the related financial impact cannot be reasonably estimated at this time. Similarly, the Company cannot estimate whether or to what extent this outbreak and the potential financial impact may extend. At this point, the extent to which COVID-19 will or may impact the Company is uncertain and these factors are beyond the Company's control; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations and financial condition.

The above material uncertainties cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon successful results from its exploration and evaluation activities, its ability to attain profitable operations to generate funds and/or its ability to raise equity capital or borrowings sufficient to meet its current and future obligations. Although the Company has been successful in the past in raising funds to continue operations, there is no assurance it will be able to do so in the future.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited consolidated financial statements as at December 31, 2020.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Significant Judgments*

Management has made critical judgments in the process of applying accounting policies. The one has the most significant effect on the amounts recognized in the financial statements include:

- i. The assessment of the Company's ability to continue as a going concern and its ability to execute its strategy by funding future working capital requirements requires judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, such as expectations of future events that are believed to be reasonable under the circumstances. The factors considered by management are disclosed in Note 2.
- ii. Management is required to assess the functional currency of the Company. In concluding that the Canadian dollar is the functional currency of the Company, management considered the currency that mainly influences the operating expenditures in the jurisdiction in which the Company operates.



**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS – (cont'd)**

*Estimation Uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the current and next fiscal financial years:

- i. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, the expiry dates of the products, and current and future expectations with respect to product sales. Assumptions underlying the allowance for inventory obsolescence include future sales trends, marketing strategy and others. These estimates could materially change from period to period due to changes in various factors.
- ii. The Company uses the Black-Scholes option pricing model to value the warrant granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates that are subjective and may not be representative of actual.

**5. REVERSE TAKEOVER**

On July 28, 2020, the Company entered into an assignment and novation agreement with 1208004 B.C. Ltd. (“Assignor”) whereby the Assignor assigned its letter of intent to acquire 100% of Happy to the Company for an assignment fee of 900,000 common shares of the Company. On the same date, the Company, Happy and the shareholders of the Happy executed a share exchange agreement dated (the “Agreement”). Pursuant to the Agreement, the Company issued an aggregate of 34,468,616 common shares of the Company pro rata to the shareholders of Happy in exchange for the 34,468,616 shares of Happy (“Share Exchange”).

Upon completion of the Share Exchange, Happy became a wholly-owned subsidiary of the Company. Effective December 11, 2020, the Company changed its name from Viking Gold Exploration Inc. to “Happy Supplements Inc.” and has continued to carry out the business operations of Happy.

As a result of the Share Exchange, Happy is deemed to be the acquirer for accounting purposes (“Reverse Takeover”) and therefore its assets, liabilities and operations are included in the consolidated financial statements at their historical carrying value, with the operations of the Company being included from December 11, 2020, the closing date of the Reverse Takeover, and onwards. Happy also changed its year end to December 31.

At the time of the reverse takeover, the Company did not constitute a business as defined under IFRS 3; therefore, the Reverse Takeover of the Company by Happy is accounted for under IFRS 2, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to profit and loss. The fair value of the consideration issued for the net assets of the Company is as follows:

**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
**(Expressed in Canadian Dollars)**  
**(Unaudited – Prepared by Management)**

**5. REVERSE TAKEOVER – (cont'd)**

<b>Consideration:</b>	
Fair value of shares retained by former shareholders (2,827,042 shares)	\$ 706,761
Fair value of shares issued to Assignor (900,000 shares)	225,000
Fair value of 1,183,333 warrants assumed	88,430
Fair value of 95,000 stock options assumed	17,411
<b>Total consideration</b>	<b>1,037,602</b>
<b>Fair value of net assets acquired:</b>	
Cash	297,536
GST receivable	3,959
Due from related parties	44,934
Prepaid expenses	5,010
Accounts payable and accrued liabilities	(13,836)
Subscriptions received	(290,000)
Loans payable	(10,000)
Cash transferred from Assignor	4,500
Accounts payable transferred from Assignor	19,153
<b>Total net assets</b>	<b>61,255</b>
<b>Listing expense</b>	<b>\$ 976,346</b>

**6. INVENTORY**

Inventory is comprised of finished goods held on hand.

**7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Accounts payable	\$ 192,242	\$ 26,021
Accrued liabilities	89,189	88,672
Payroll tax payable	-	6,051
	<b>\$ 281,431</b>	<b>\$ 120,744</b>

**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
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**8. RELATED PARTY BALANCES AND TRANSACTIONS**

*Key management compensation*

These amounts of key management compensation are included in consulting fees and wages and benefits expenses:

	<b>For the nine months ended September 30, 2021</b>	<b>For the nine months ended August 31, 2020</b>
Officer compensation	\$ 147,864	\$ 80,748

Included in the accounts payable and accrued liabilities is \$31,853 (December 31, 2020 - \$31,830) related to the above compensation incurred with the Company's Chief Executive Officer.

*Due from related party*

As at September 30, 2021, the Company has \$176,704 (December 31, 2020 - \$58,544) due from Fit Products, LLC ("Fit Products") for working capital advances. Fit Products' sole member is a director of the Company. The amount bears no interest, has no stated terms of repayment and is unsecured.

*Convertible promissory note*

The Company previously utilized funds provided by a director to support its initial operations. The borrowings bore no interest and were payable on demand to the director. Funds provided were primarily used for advertising and inventory purchases for the Company.

On March 2, 2020, the Company issued a convertible promissory note to the director for the outstanding balance of USD\$2,522,842 with non-interest bearing, whereby the director in his sole discretion may convert the full balance of the outstanding principal into common shares of the Company, subject to additional share issuance if certain target ownership percentage was not met with the conversion. On March 22, 2020, the promissory note was converted and settled in full (note 10).

**9. LOAN PAYABLE**

On May 21, 2020, the Company received a Small Business Administration ("SBA") loan of \$50,857 USD through an accredited lender under the Paycheck Protection Program (the "PPP") program pursuant to the Federal Government Cares Act. The loan bears interest at 1% per annum and is repayable over 18 months, with principal and interest deferral for the first nine months. The PPP allows for full loan forgiveness if the Company meets certain eligibility requirements, which is subject to the lender's evaluation of the Company's use of the proceeds. As at September 30, 2021 and December 31, 2020, the Company determined that it could not reasonably assure whether it has met the requirements, as a result \$nil was recognized into government grant in relation to the loan forgiveness in neither period.

The SBA loan was accounted for using the effective interest rate method and was discounted using a rate of 12% per annum, with discount portion recognized as government grant. An accretion expense of \$1,441 (August 31, 2020 - \$NIL) is recorded in the statements of loss and comprehensive loss for the nine months ended September 30, 2021.

**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
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**9. LOAN PAYABLE – (cont'd)**

The minimum payments due on the SBA loan is summarized as follows:

	<b>September 30, 2021</b>	<b>December 31, 2020</b>
Within one year	\$ 65,263	\$ 32,752
One to two years	-	32,511
	65,263	65,263
Less: amount representing interest payments	(5,176)	(6,669)
Total loan payable	60,087	58,594
Less:		
Loan payable – current portion	60,087	43,168
Loan payable	\$ -	\$ 15,426

On April 27, 2021 and April 28, 2021, the Company entered into loan agreements with two third-party creditors for a total of \$75,000, which are unsecured, bear interest at 3% per annum and are due on or before December 31, 2021. As at September 30, 2021, these loans have been repaid and the Company made total interest payments of \$719.

**10. SHARE CAPITAL**

a) Share capital

*Authorized*

Unlimited number of common voting shares without par value.

*Issued and Outstanding*

(i) Share issuances

During the nine months ended September 30, 2021:

On September 3, 2021, the Company completed a non-brokered private placement for the issuance of 4,127,500 units at a price of \$0.80 per unit for gross proceeds of \$3,302,000. Each unit consists of one common share and one common share purchase warrant, exercisable at a price of \$2.50 for two years from the closing date. In connection with the private placement, the Company issued 33,020 common shares as administrative fees to a third party who assisted with facilitating the transaction. As at September 30, 2021, share subscription receivables of \$5,000 was netted against share capital and received subsequent to year-end.

During the nine months ended September 30, 2021, pursuant to the exercise of stock options, the Company issued 45,000 common shares at \$0.32 per share for total proceeds of \$14,400. The Company transferred the fair value of the options of \$8,247 from reserves to share capital.

During the nine months ended September 30, 2021, pursuant to the exercise of share purchase warrants, the Company issued an aggregate of 1,070,000 common shares at a price of \$0.40 for total proceeds of \$448,000. The Company transferred the fair value of the share purchase warrants of \$79,961 from reserves to share capital.

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**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
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**10. SHARE CAPITAL – (cont'd)**

a) Share capital – (cont'd)

(i) Share issuances – (cont'd)

During the nine months ended September 30, 2021, pursuant to the exercise of broker warrants, the Company issued 17,990 common shares at a price of \$0.25 for total proceeds of \$4,498. The Company transferred the fair value of the broker warrants of \$2,462 from reserves to share capital.

During the nine months ended August 31, 2020 and four-month period ended December 31, 2020:

On December 11, 2020, the Company completed a concurrent private placement with the Reverse Takeover (Note 5). The Company issued 2,517,000 common shares at \$0.25 per share for gross proceeds of \$629,250. The Company paid finders fees of \$18,498 and issued 73,990 broker warrants valued at \$10,124. The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its warrants granted using the following assumptions: Expected life – 1 year; Risk-free interest rate – 0.25%; Expected annualized volatility – 150%; Stock price at grant date - \$0.25; Exercise price - \$0.25; and Dividend yield – 0%. The Company has used a volatility of 150% with reference to the historical record of comparable public companies.

(ii) Unit to share conversion

On February 13, 2020, all 17,468,616 Series 1 and Series 2 membership units issued and outstanding were converted into an equivalent number of shares in common stock when the Company converted into a corporation.

(iii) Debt conversion

On March 22, 2020, the convertible promissory note of \$2,522,872 USD issued to the director of the Company (Note 8) was converted to 17,000,000 shares of common shares of the Company.

(iv) Share Exchange

As described in Note 5, as part of the Reverse Takeover, 2,827,042 shares were retained by the former shareholders of the Company. In addition, the Company issued 900,000 common shares to the shareholder of Assignor at a deemed price of \$0.25 per share. A total value of \$931,761 of these shares was included in the acquisition consideration.

**HAPPY SUPPLEMENTS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**For the period ended September 30, 2021**  
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**10. SHARE CAPITAL – (cont'd)**

b) Share Purchase Warrants

Share purchase warrant transactions and the number of warrants outstanding as at September 30, 2021 and December 31, 2020 are summarized as follows:

	September 30, 2021		December 31, 2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	10,183,333	\$ 0.09	9,000,000	\$ 0.05
Assumed from Reverse Takeover	-	\$ -	1,183,333	\$ 0.40
Granted	4,127,500	\$ 2.50		
Exercised	(1,070,000)	\$ 0.40	-	-
Expired	(113,333)	\$ 0.40		
Outstanding, end of period	13,127,500	\$ 0.82	10,183,333	\$ 0.09

The following warrants were outstanding and exercisable as at September 30, 2021:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Warrants
March 2, 2022	0.42	\$ 0.40	9,000,000
September 3, 2023	1.93	\$ 2.50	4,127,500
	0.89	\$ 0.82	

The fair value of 1,183,333 share purchase warrants assumed from Reverse Takeover was calculated using the Black-Scholes option pricing model based on the following weighted average assumptions: Expected life – 0.57 year; Risk-free interest rate – 0.25%; Expected annualized volatility – 150%; Stock price at grant date - \$0.25; Exercise price - \$0.40; and Dividend yield – 0%. The Company has used a volatility of 150% with reference to the historical record of comparable public companies.

The weighted average share price on the date of exercise for share purchase warrants was equal to \$1.12.

**HAPPY SUPPLEMENTS INC.**  
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**10. SHARE CAPITAL – (cont'd)**

c) Broker Warrants

Broker warrant transactions and the number of broker warrants outstanding as at September 30, 2021 and December 31, 2020 are summarized as follows:

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	Number of Broker Warrants	Weighted Average Exercise Price	Number of Broker Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	73,990	\$ 0.25	-	-
Granted	-		73,990	\$ 0.25
Exercised	17,990	\$0.25	-	-
Outstanding, end of period	56,000	\$ 0.25	73,990	\$ 0.25

The following broker warrants were outstanding and exercisable as at September 30, 2021:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Broker Warrants
December 11, 2021	0.20	\$ 0.25	56,000
	0.20	\$ 0.25	

The fair value of 73,990 broker warrants issued was calculated using the Black-Scholes option pricing model based on the following weighted average assumptions: Expected life – 1 year; Risk-free interest rate – 0.25%; Expected annualized volatility – 150%; Stock price at grant date - \$0.25; Exercise price - \$0.25; and Dividend yield – 0%. The Company has used a volatility of 150% with reference to the historical record of comparable public companies.

The weighted average share price on the date of exercise for broker warrants was equal to \$1.30.

d) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of common shares that may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date, including options granted prior to the adoption of the plan. The exercise price of these options is not less than the Company's closing market price on the day prior to the grant of the options less the applicable discount permitted by the TSX-V and will not otherwise be less than \$0.10 per share. Options granted may not exceed a term of five years. All options vest when granted unless otherwise specified by the Board of Directors.

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**10. SHARE CAPITAL – (cont'd)**

d) Stock options – (cont'd)

Stock options transactions and the number of stock options outstanding as at September 30, 2021 and December 31, 2020 are summarized as follows:

	<b>September 30, 2021</b>		<b>December 31, 2020</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	95,000	\$ 0.32	-	-
Assumed from Reverse Takeover	-	-	95,000	\$ 0.32
Granted	2,200,000	\$ 1.05		
Exercise	(45,000)	\$ 0.32	-	-
Forfeited	(50,000)	\$ 0.32		
Outstanding, end of period	2,200,000	\$ 1.05	95,000	\$ 0.32

The fair value of the 95,000 stock options assumed from the reverse takeover was calculated using the Black-Scholes option pricing model based on the following weighted average assumptions: Expected life – 2.47 year; Risk-free interest rate – 0.25%; Expected annualized volatility – 150%; Stock price at grant date - \$0.25; Exercise price - \$0.32; and Dividend yield – 0%. The Company has used a volatility of 150% with reference to the historical record of comparable public companies.

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. The fair value of stock options issued was calculated using the following weighted average assumptions:

	<b>Period ended September 30, 2021</b>	<b>Year ended December 31, 2020</b>
Risk-free interest rate	0.94%	-
Expected option life in years	5 years	-
Expected share price volatility*	100%	-
Expected forfeiture rate	-	-
Expected dividend yield	Nil	-

\*The share price volatility was determined based on management's professional judgement and comparison to comparable entities' historical volatility in share price.

**11. GOVERNMENT GRANTS**

On April 28, 2020, the Company received USD\$10,000 through an accredited lender under COVID-19 Economic Disaster Loan program funded by the government. The loan was provided to be used for working capital and normal operating expenses. The loan bears interest at a fixed rate of 3.75% per annum and has a term of 30 years. The amount was recognized as government grant for the year ended August 31, 2020.

The remaining amount included in the government grant is attributed to the difference of the proceeds received and the fair value of the SBA loan received in May 2020 (Note 9).



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**HAPPY SUPPLEMENTS INC.****Notes to the Condensed Interim Consolidated Financial Statements****For the period ended September 30, 2021****(Expressed in Canadian Dollars)****(Unaudited – Prepared by Management)**

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**12. FINANCIAL INSTRUMENTS**

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash and cash equivalents are classified as fair value through profit and loss (“FVTPL”); accounts payable and accrued liabilities, due to related parties and loan payable as amortized cost. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The Company’s financial asset measured at fair value, cash, is classified as level 1 according to the fair value hierarchy.

Management of capital

The Company’s objective when managing capital is to safeguard the Company’s ability to continue as a going concern in order to provide returns for the shareholders and to maintain an optimal capital structure. As at September 30, 2021, the Company does not have any externally imposed capital requirements. The Company defines its capital as share capital and reserves. The Company has financed its capital requirements primarily through share issuances, warrant issuances and obtaining loans. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue shares or obtain new loans. The company’s management actively and regularly reviews and manages its capital structure. There has been no change to how the Company manage its capital.

Financial Risk Management

The Company’s activities expose itself to different kinds of financial risks. Management monitors this risk exposures to ensure appropriate measures are implemented in a timely manner so as to mitigate or reduce such risks.

a. Credit risk

The company is exposed to credit which is the risk that a counterparty will be unable to pay amounts in full when due. The credit risk on liquid funds and time deposits is limited because the counterparties are banks with high credit ratings assigned by credit-rating agencies. For banks and financial institutions, the Company from time-to-time evaluates the soundness of these institutions for possible exposure to loss. To mitigate the potential for loss, the Company’s cash deposits are maintained in the United States with large, reputable financial institutions. The company does not provide any guarantees which would expose the company to credit risk.

b. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company’s accounts payable and accrued liabilities are due within 90 days. Amounts due to related parties are due on demand. The Company addresses its liquidity through debt and equity financing obtained through the sale of common shares and the exercise of warrants and options. There is no assurance that it will be able to do so in the future. Liquidity risk is assessed as high.

c. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at September 30, 2021, the Company is not exposed to significant interest rate risk.

### **13. COMPARATIVE FIGURES**

As a result of the RTO transaction (Note 5) Happy changed its year end from August 31, 2020 to December 31, 2020, accordingly, the comparative figures for the statements of changes in shareholders' equity, statements of loss and comprehensive loss and statements of cash flows are for the nine months ended August 31, 2020.

### **14. SUBSEQUENT EVENTS**

On October 7, 2021, the Company issued a total of 71,250 common shares to service providers in exchange for the reduction of accumulative \$85,500 in debts owing, at a deemed price of \$1.20 per share.

On October 15, 2021, the Company has entered into a Letter of Intent ("LOI") to acquire all of the outstanding and issued shares of Bettermoo(d) Holdings Corp. ("bettermoo(d)"). Under the terms of the LOI, in consideration for all outstanding share capital of bettermoo(d), the Company is expected to issue 9,000,000 common shares, 10,000,000 common share purchase warrants (each, a "Consideration Warrant") and 700,000 incentive stock options (each, a "Consideration Option") to the existing security holders of bettermoo(d). Each Consideration Warrant will be exercisable at a price of \$1.40 for a period of twenty-four months after the closing date and each Consideration Option will be exercisable at a price of \$0.30 for a period of sixty months after the closing date.

Completion of the acquisition of bettermoo(d) remains subject to a number of conditions, including: the satisfactory completion of due diligence; the receipt of any required regulatory approvals; and the negotiation of definitive documentation. The acquisition cannot be completed until these conditions have been satisfied.