HAPPY GUT BRANDS LIMITED

(FORMERLY: HAPPY SUPPLEMENTS INC.)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021, FOUR MONTHS ENDED DECEMBER 31, 2020 AND YEAR ENDED AUGUST 31, 2020

(EXPRESSED IN CANADIAN DOLLARS)

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Happy Gut Brands Ltd. (formerly Happy Supplements Inc.)

Opinion

We have audited the consolidated financial statements of Happy Gut Brands Ltd. (formerly Happy Supplements Inc.) (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021, December 31, 2020 and August 31, 2020, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year ended December 31, 2021, the four months ended December 31, 2020 and the year ended August 31, 2020, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, December 31, 2020 and August 31, 2020, and its financial performance and its cash flows for the year ended December 31, 2021, the four months ended December 31, 2020 and the year ended August 31, 2020 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which describes events and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of that matter.

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner on the audit resulting in this independent auditor's report is David Goertz.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

May 4, 2022

HAPPY GUT BRANDS LIMITED (FORMERLY: HAPPY SUPPLEMENTS INC.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2021	December 31, 2020	August 31, 2020
ASSETS			
CURRENT			
Cash	$ 2,051,925	$ 308,849	$ 21,654
Accounts receivable (Note 16)	65,167	12,122	-
Inventory (Note 7)	-	21,817	22,690
Prepaid expenses (Note 8)	4,800	99,539	113,465
Due from related party (Note 12)	-	58,544	5,846
	2,121,892	500,871	163,655
NON-CURRENT			
Deferred marketing costs (Note 9)	498,844	-	-
Product formulations (Note 6)	522,000	-	-
	$ 3,142,736	**$ 500,871**	**$ 163,655**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
CURRENT			
Accounts payable and accrued liabilities (Notes 10 and 12)	$ 487,710	$ 120,744	$ 101,554
Loan payable – current portion (Note 11)	65,747	43,168	33,163
	553,457	163,912	134,717
NON-CURRENT			
Loan payable (Note 11)	-	15,426	24,543
	553,457	179,338	159,260
Shareholders' Equity			
Share capital (Note 13)	26,332,629	7,265,559	5,733,170
Reserves	14,019,266	1,941,352	1,825,387
Accumulated other comprehensive income	30,109	65,226	65,835
Deficit	(37,792,725)	(8,950,604)	(7,619,997)
	2,589,279	321,533	4,395
	$ 3,142,736	**$ 500,871**	**$ 163,655**

Going concern (Note 1)
Contingencies (Note 18)
Subsequent events (Note 20)

Authorized for issuance on behalf of the Board on May 4, 2022:

"Joel Shacker" — ***Joel Shacker, Director***

"Geoff Balderson" — ***Geoff Balderson, Director***

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

HAPPY GUT BRANDS LIMITED (FORMERLY: HAPPY SUPPLEMENTS INC.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	For the year ended December 31, 2021	For the four months ended December 31, 2020	For the year ended August 31, 2020
Revenue		$ 13,989	$ 9,053	$ 148,430
Cost of sales		21,353	2,083	157,082
Gross margin		(7,364)	6,970	(8,652)
Operating expenses				
Advertising and marketing		1,018,171	15,275	804,484
Amortization of deferred marketing costs	9	71,113	-	-
Bank charges and interest		12,558	4,630	8,010
Computer and internet		15,502	2,739	12,960
Consulting fees	12	467,557	-	-
Office and miscellaneous		52,403	22,206	74,765
Product development		31,788	-	-
Professional fees		307,368	199,771	249,257
Rent		25,000	-	-
Shareholder communications		8,055	3,507	-
Share based compensation	13	1,810,000	-	1,883,675
Transfer agent and filing fees		48,136	4,661	-
Travel and promotions		42,282	7,217	15,550
Wages and benefits	12	163,983	101,225	578,291
		(4,073,916)	(361,231)	(3,626,992)
Net loss before other items		(4,081,280)	(354,261)	(3,635,644)
Other Items				
Listing expense	5	-	(976,346)	-
Transaction expense	6	(24,490,474)	-	-
Impairment of amount due from related party	12	(173,847)	-	-
Impairment of prepaid expenses	8	(96,520)	-	-
Government grant	14	-	-	24,290
Net loss		(28,842,121)	(1,330,607)	(3,611,354)
Other comprehensive income (loss)				
Items that may be reclassified to profit or loss				
Exchange difference on translating foreign operations		(35,117)	(609)	65,835
Comprehensive loss		$ (28,877,238)	$ (1,331,216)	$ (3,545,519)
Loss per share – basic and diluted		$ (0.65)	$ (0.04)	$ (0.14)
Weighted average number of common shares outstanding – basic and diluted		44,138,037	35,492,229	25,790,774

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

HAPPY GUT BRANDS LIMITED (FORMERLY: HAPPY SUPPLEMENTS INC.)
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital						
	Number of Common Shares	Number of Membership Units	Amount	Reserves	Deficit	AOCI	Total
Balance, August 31, 2019	**13,000,000**	**13,000,000**	**$ 1,250,000**	**$ -**	**$ (4,008,643)**	**$ -**	**$ (2,758,643)**
Contributions	4,468,616	4,468,616	1,117,154	-	-	-	1,117,154
Conversion of membership units to shares		(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	-	-	-	-	(3,611,354)	65,835	(3,545,519)
Balance, August 31, 2020	**34,468,616**	**-**	**$ 5,733,170**	**$ 1,825,387**	**$ (7,619,997)**	**$ 65,835**	**$ 4,395**
Shares issued in reverse takeover	3,727,042	-	931,761	-	-	-	931,761
Shares issued in private placement (net of SIC)	2,517,000	-	600,628	10,124	-	-	610,752
Stock options issued in reverse takeover	-	-	-	17,411	-	-	17,411
Warrants granted in reverse takeover	-	-	-	88,430	-	-	88,430
Net and comprehensive loss for the period	-	-	-	-	(1,330,607)	(609)	(1,331,216)
Balance, December 31, 2020	**40,712,658**	**-**	**$ 7,265,559**	**$ 1,941,352**	**$ (8,950,604)**	**$ 65,226**	**$ 321,533**
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 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)	-	-	-
Shares issued for debt settlement	71,250	-	85,500	-	-	-	85,500
Shares, options, and warrants issued to shareholders of Bettermoo(d) Holdings Corp.	9,180,001	-	15,147,002	10,358,584	-	-	25,505,586
Net and comprehensive loss for the year	-	-	-	-	(28,842,121)	(35,117)	(28,877,238)
Balance, December 31, 2021	**55,257,419**	**-**	**$ 26,332,629**	**$ 14,019,266**	**$ (37,792,725)**	**$ 30,109**	**$ 2,589,279**

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

HAPPY SUPPLEMENTS, INC.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended December 31, 2021	For the four months ended December 31, 2020	For the year ended August 31, 2020
Operating activities			
Net loss for the year	$ (28,842,121)	$ (1,330,607)	$ (3,611,354)
Items not involving cash:			
Accretion Expense	-	2,320	3,153
Amortization of deferred marketing costs	71,113	-	
Foreign exchange	(25,497)	-	-
Government grant – other income	-	-	(10,831)
Impairment of amounts due from related party	173,847	-	-
Impairment of prepaid expenses and write-down of inventory	107,276	(4,836)	90,667
Share based compensation	1,810,000	-	1,883,675
Shares issued for debt settlement	85,500	-	-
Transaction expense	24,490,474	976,346	-
Changes in non-cash working capital balances:			
Accounts receivable	(53,045)	(8,163)	-
Inventory	11,060	5,265	(30,360)
Prepaid expenses	(1,781)	19,221	(74,190)
Due from related party	(115,303)	(1,453)	(6,032)
Accounts payable and accrued liabilities	16,414	12,258	65,566
Cash used in operating activities	(2,272,063)	(329,649)	(1,689,706)
Investing activities			
Cash acquired on Bettermoo(d) acquisition	267,425	-	-
Cash acquired from reverse takeover transaction	-	302,036	-
Cash provided by financing activities	267,425	302,036	-
Financing activities			
Proceeds from issuance of shares, net of share issue costs	3,743,898	320,752	1,132,168
Proceeds (repayment) from loan payable	-	(10,000)	68,444
Interest paid on repayment of loan payable	749	-	-
Cash provided by financing activities	3,744,647	310,752	1,200,612
Change in cash	1,740,009	283,139	(489,094)
Effect of foreign exchange on cash	3,067	4,056	5,519
Cash, beginning	308,849	21,654	505,229
Cash, ending	$ 2,051,925	$ 308,849	$ 21,654

Supplemental Cash Flow Information (Note 15)

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

1. NATURE OF OPERATIONS

Happy Gut Brands Limited (formerly: Happy Supplements Inc. and Viking Gold Exploration Inc.) (the "Company") 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, as further described in Note 5. The Company's common shares trade on the Canadian Securities Exchange under the symbol "HAPY". On December 6, 2021, the Company changed its name from Happy Supplements Inc. to Happy Gut Brands Limited.

On November 12, 2021, the Company acquired all the issued and outstanding shares of Bettermoo(d) Holdings Corp. ("Bettermoo(d)") and Bettermoo(d) became a wholly owned subsidiary of the Company, as further described in Note 6.

The Company is an innovative beverage company focused on developing and delivering high quality products through online and in-store retail platforms and uses social media to deliver educational experiences for their customer base while demonstrating and pioneering beverage technologies.

These 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 December 31, 2021, the Company has not achieved profitable operations, has accumulated losses of $37,792,725 since inception and expects to incur further losses in the development of its business.

There was a global pandemic outbreak of COVID-19. The actual and threatened spread of the virus globally has had a material adverse effect on the global economy and, specifically, the economies in which the Company operates. The pandemic could continue to have a negative impact on the stock market, including trading prices of the Company's shares and its ability to raise new capital. These factors, amongst others, could have a significant impact on the Company's operations.

The Company's continued existence is dependent upon its ability to raise additional capital and to identify and acquire a suitable business opportunity. Failure to do so would have an adverse effect on the financial position of the Company and its ability to continue as a going concern. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these financial statements, then adjustments may be necessary in the carrying values of assets and liabilities, the reported expenses, and the statement of financial position classifications used. Such adjustments could be material.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These 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"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Audit Committee and approved and authorized for issue by the Board of Directors on May 4, 2022.

(b) Basis of Measurement

These consolidated financial statements have been prepared on a historical basis, except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary, Bettermoo(d) Holdings Corp. The functional currency of Happy Supplements Inc. is the United States Dollar ("USD").

(c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries at the end of the reporting period:

	Incorporated	Nature	December 31, 2021	December 31, 2020	August 31, 2020
Bettermoo(d) Holdings Corp.	BC, Canada	Consumer products	100%	0%	0%
Happy Supplements Inc.	Florida, USA	Consumer products	100%	100%	0%

The results of the wholly owned subsidiaries will continue to be included in the consolidated financial statements of the Company until the date that the Company's control over the subsidiary ceases. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies have been applied consistent throughout by the Company for purposes of these financial statements.

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with financial institutions, and other short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. As at December 31, 2021, the Company held no cash equivalents.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments

Financial Assets

All financial assets not classified at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss ("FVTPL"). On initial recognition, the Company can irrevocably designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss; and

- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

Financial assets that meet the following conditions are measured at fair value through other comprehensive income ("FVTOCI"):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial instruments are initially recognized at fair value on the statement of financial position. Subsequent measurement of financial instruments is based on their classification. Financial assets and liabilities classified at FVTPL are measured at fair value with changes in those fair values recognized in net income (loss) for the period. Financial assets classified at amortized cost and financial liabilities are measured at amortized cost using the effective interest method. The Company's financial instruments are classified as follows:

Financial Assets / Liabilities	**Classification and Measurement**
Cash	FVTPL
Accounts receivable	Amortized cost
Accounts payable	Amortized cost
Loan payable	Amortized cost

Fair value hierarchy

Fair value measurements of financial instruments are required to be classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels of the fair value hierarchy are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs for assets or liabilities that are not based on observable market data.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial instruments (continued)

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the consolidated statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and due to related parties are classified under other financial liabilities and carried on the consolidated statement of financial position at amortized cost.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss. The Company does not have any derivative financial assets and liabilities.

Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

c) Foreign currency translation

Transactions in foreign currencies are translated using the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period, except for exchange differences relating to borrowings hedging net investments denominated in the consolidated subsidiaries' currency.

These differences are recognized in other comprehensive income as currency translation differences until the disposal of the net investment. Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized as finance costs or income, or in other comprehensive income.

The assets and liabilities of a foreign operation, including goodwill and fair value adjustments arising from the acquisition, are translated in Canadian dollars at year-end exchange rates. Income and expenses, and cash flows of a foreign operation are translated in Canadian dollars using average exchange rates. Differences resulting from translating foreign operations are reported as translation differences in equity. When a foreign operation is disposed of, the translation differences previously recognized in equity are reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity in which case the related income tax is recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non discounted basis using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that such assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

e) Provisions

A provision is recognized when it becomes probable that a present obligation arising from a past event will require an outflow of resources that can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to settle this obligation. Where a potential obligation resulting from past events exists, but occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in commitments and contingencies.

f) Government grants

A government grant is recognized when there is reasonable assurance it will be received, and all related conditions will be complied with. The Company recognizes government grants in profit or loss on a systematic basis and in line with its recognition of the expenses that the grants are intended to compensate. The Company determines whether the grant compensates expenses already incurred or future costs. The Company also has a loan payable at below-market rate of interest for fund received from the government or government funded program. The benefit of the government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

h) Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, stock options, warrants and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Valuation of equity units issued in private placements

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. Under this method, the proceeds are allocated first to share capital based on the fair value of the common shares at the time the units are priced and any residual value is allocated to the share-based payments reserve. The fair value of the common shares is based on the closing quoted bid price on the announcement date. Consideration received for the exercise of warrants is recorded in share capital and the related residual value in warrants reserve is transferred to share capital. For those warrants that expired, the recorded value is transferred to deficit.

i) Earnings (loss) per share

The Company presents basic earnings (loss) per share data for its common shares, calculated by dividing the income (loss) attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

j) Share-based payments

The Company grants share options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of share-based payments to employees is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period for employees using the graded method. Fair value of share-based payments for non-employees is recognized and measured at the date the goods or services are received based on the fair value of the goods or services received. If it is determined that the fair value of goods and services received cannot be reliably measured, the share-based payment is measured at the fair value of the equity instruments issued using the Black-Scholes option pricing model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Share-based payments (continued)

For both employees and non-employees, the fair value of share-based payments is recognized as either an expense or as mineral property interests with a corresponding increase in share-based payments reserve. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Consideration received on the exercise of stock options is recorded in share capital and the related share-based payment in share-based payments reserve is transferred to share capital.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where a grant of options is cancelled and settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. The amounts recorded in reserves for unexercised share options are transferred from share-based payments reserve to deficit upon their expiry or cancellation.

k) Inventory and cost of sales

Inventory consists of third-party manufactured finished goods that are available for sale. Inventories are valued at the lower of cost or net realizable value. Cost is determined using the first in first out method and includes the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The costs of purchase include the purchase price, non-recoverable taxes, transport and other costs directly attributable to the acquisition of finished goods. Cost of sales includes the expenses incurred to acquire inventory for sale, as well as provisions for reserves related to obsolete inventory or lower of cost and net realizable value adjustments as required.

l) Intangible assets

Separately acquired intangible assets are recognized initially at cost. Following initial recognition, intangible assets with finite useful lives are carried at cost less any accumulated amortization and any accumulated impairment losses.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable potential cash flow generating units ("CGU's"). The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (being the present value of the expected future cash flows of the CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the statement of operations.

n) Revenue recognition

To determine whether to recognize revenue, the Company follows a 5-step process:

a. Identifying the contract with a customer.
b. Identifying the performance obligations.
c. Determining the transaction price.
d. Allocating the transaction price to the performance obligations.
e. Recognizing revenue when/as performance obligation(s) are satisfied.

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognized at a point in time when the Company satisfies performance obligations by transferring the promised goods or services to its customers.

The Company generates its revenue primarily from the sales of natural hemp products. The Company recognizes revenues from its product sales when delivery has occurred and there is no unfulfilled obligation that could affect the customer's acceptance. These criteria are generally met at the time the products are provided or delivered and the customer takes possession of the goods, at which time control has passed to the customer.

The Company measured its revenue based on the price specified in the invoice provided to the customer, adjusted for expected returns, which are estimated based on historical data by specific products and adjusted as needed to estimate returns. The Company collects payment upon a customer placing an order, therefore, it does not carry trade receivables as at December 31, 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Research and development

Expenditures on research activities, undertaken with the prospect of gaining new or technical knowledge and understanding, are recognized in profit or loss as incurred and recognized as product development costs.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset. The expenditures capitalized include the costs of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use and borrowing costs on qualifying assets. Other development expenditures are recognized in profit or loss as incurred.

p) New accounting standards issued but not yet effective

Certain new standards, interpretations, and amendments to existing standards have been issued by the IASB or IFRC that are mandatory for accounting years beginning after January 1, 2022, or later years. New accounting pronouncements that are not applicable or are not consequential to the Company have been excluded in the preparation of these consolidated financial statements.

A number of new standards, and amendments to standards and interpretations, are not effective for the year ended December 31, 2021, and have not been early adopted in preparing these financial statements. These new and amended standards are not expected to have a material impact on the Company's financial statements. The following accounting standards and amendments are effective for future periods:

i. Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). These amendments are effective for reporting periods beginning on or after January 1, 2022.

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

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023.

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 1.
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.
iii. Management has applied judgement in determining whether or not the fair value of the services received pursuant to certain agreement can be reliably measured. As a result, the Company has measured the transaction based on the fair value of the equity instruments issued therein
iv. The determination of whether a set of assets acquired and liabilities assumed in an acquisition constitute a business may require the Company to make certain judgments, taking into account all facts and circumstances. A business is presumed to be an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or economic benefits. The reverse takeover as described in note 5 did not constitute a business combination as only net asses were acquired, and accordingly were accounted for as asset purchase transactions.

Significant estimates

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 options and warrants 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.
iii. The determination of whether facts and circumstances suggest that the carrying value of intangible assets may exceed their recoverable amount is an area of significant estimate. Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment, estimates, and interpretations. Determining the recoverable amount of the individual asset or cash generating unit is subject to estimates and judgements. These estimates and judgments are inherently subjective given the company's stage of operations with no revenue producing history.

(Expressed in Canadian Dollars)

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 Gut Brands Limited (formerly: 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 transaction expense in the statements of loss and comprehensive loss. The fair value of the consideration issued for the net assets of the Company is as follows:

Consideration:		
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
Total consideration		1,037,602
Fair value of net assets acquired:		
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
Total net assets		61,255
Listing expense	**$**	**976,346**

(Expressed in Canadian Dollars)

6. ASSET ACQUISITION

On November 12, 2021, the Company completed the acquisition of all issued and outstanding share capital of Bettermoo(d) by issuing 9,000,001 common shares, 10,000,000 warrants, and 700,000 stock options to Bettermoo(d)'s shareholders. The Company also issued 180,000 common shares with a value of $297,000 as a finders' fee.

At the date of acquisition, the Company determined that Bettermoo(d) did not constitute a business as defined under IFRS 3, *Business Combinations*, and the Bettermoo(d) acquisition was accounted for as an asset acquisition. The consideration paid was determined as an equity share-based payment under IFRS 2, *Share-based* payments, and recognized at the fair value of the common shares of the Company at a price of $1.65 per share. As a result of the transaction, the Company replaced 10,000,000 warrants, with a fair value of $9,308,645, and 700,000 stock options, with a fair value of $1,049,939. The warrants were valued using the Black-Scholes Option Pricing model using the following assumptions: Risk free rate of 0.98%; Volatility of 100%; Stock Price of $1.65; Exercise price of $1.40; Dividend yield of NIL% and expected life of 2 years. The stock options were valued using the Black-Scholes Option Pricing model using the following assumptions: Risk free rate of 1.45%; Volatility of 100%; Stock Price of $1.65; Exercise price of $0.30; Dividend yield of NIL% and expected life of 5 years.

As a result of the acquisition, intangible assets were identified that met the recognition criteria under IFRS; therefore, the Company recognized the fair value of the intangible assets received and the remaining excess of the consideration paid over the fair value of the assets and liabilities assumed was expensed as transaction expense.

The following table shows the finalized allocation of the purchase price to the fair value of the assets acquired and liabilities assumed, based on the estimated fair value, including a summary of the identifiable classes of considered transferred, and amounts by category of assets acquired and liabilities assumed at the acquisition date:

Consideration:		
Fair value of 9,000,001 common shares at $1.65 per share	$	14,850,002
Fair value of 10,000,000 replacement warrants		9,308,645
Fair value of 700,000 replacement stock options		1,049,939
Total consideration		25,208,586
Fair value of net assets acquired:		
Cash		267,425
Deferred marketing costs		369,957
Product formulations		522,000
Accounts payable and accrued liabilities		(144,270)
Total net assets		1,015,112
Fair value of 180,000 common shares at $1.65 per share issued as finders' fee		297,000
Transaction expense	**$**	**24,490,474**

As at December 31, 2021, the Company has product formulations and related patents for the production of Moodrink, a plant-based dairy alternative beverage. Pursuant to the acquisition of Bettermoo(d) and as at December 31, 2021, the Company has recognized $522,000 (December 31, 2020 – $Nil; August 31, 2020 – $Nil) in product formulations. As the Company has yet to utilize these formulations in active production, no amortization has been recognized in the consolidated statements of loss and comprehensive loss.

(Expressed in Canadian Dollars)

7. INVENTORY

Inventory is comprised of finished goods held on hand. During the year ended December 31, 2021, the Company recorded a $10,757 write-down on its inventory (four months ended December 31, 2020 – reversal of $4,836; year ended August 31, 2020 – write-down of $90,667) and expensed $10,596 of inventory as cost of sales (four months ended December 31, 2020 – $6,919; year ended August 31, 2020 - $66,415). In addition, there was $Nil (four months ended December 31, 2020 – $Nil; year ended August 31, 2020 - $17,096) of inventory given out for promotion, which is recognized as selling costs and included under general and administrative expenses.

8. PREPAID EXPENSES

Prepaid expenses relate to prepayments rendered to third-party vendors for services to be incurred related to marketing and investor relations activities. During the year ended December 31, 2021, the Company impaired prepaid expenses of $96,520 (December 31, 2020 – $Nil; August 31, 2020 – $Nil).

9. DEFERRED MARKETING COSTS

On September 21, 2021, Bettermoo(d) entered into a marketing agreement with Adams Communications Inc. (“Adams”) whereby it engaged Adams to produce marketing and promotional content for the use by Bettermoo(d). The term of the agreement is from September 21, 2021 to December 31, 2022; however, as part of the agreement, Bettermoo(d) will hold an exclusive royalty free license to use the content produced by Adams until December 31, 2024. The consideration for the services and license is as follows:

Consideration		Amount
Cash payment upon execution of the agreement	$	300,000
Cash payment to be made at six months subsequent to the execution of the Agreement		200,000
2,000,000 shares upon execution of the agreement		140,000
Total	$	640,000

As at December 31, 2021, Bettermoo(d) had paid $300,000 in cash and issued 2,000,000 common shares to Adams pursuant to the agreement. The second cash payment of $200,000 was paid on March 21, 2022.

A continuity of the deferred marketing costs is as follows:

	Amount
Balance, January 1, 2021	-
Acquired from Bettermoo(d)	369,957
Accrued cash payment (paid on March 21, 2022)	200,000
Amount expensed	(71,113)
Balance, December 31, 2021	498,844

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2021		December 31, 2020		August 31, 2020
Accounts payable	$	229,532	$	26,021	$	67,998
Accrued liabilities		258,178		88,672		32,605
Payroll tax payable		-		6,051		951
	$	487,710	$	120,744	$	101,554

(Expressed in Canadian Dollars)

11. LOAN PAYABLE

On May 21, 2020, the Company received a Small Business Administration ("SBA") loan of US $50,857 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 deferred for the first year. 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 December 31, 2021, 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 during the year.

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. The loan was fully accreted during the year and the Company recognized an interest expense of $5,838 that is recorded in the statements of loss and comprehensive loss for the year ended December 31, 2021. The minimum payments due on the SBA loan is summarized as follows:

	December 31, 2021	December 31, 2020
Within one year	$ 65,747	$ 32,752
One to two years	-	32,511
	65,747	65,263
Less: amount representing interest payments	-	(6,669)
Total loan payable	65,747	58,594
Loan payable – current portion	65,747	43,168
Loan payable – long-term portion	$ -	$ 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 December 31, 2021, these loans have been repaid and the Company made total interest payments of $749.

12. RELATED PARTY BALANCES AND TRANSACTIONS

Key management compensation

Related party transactions not otherwise described in these financial statements are shown below. The remuneration of the Company's directors and other members of key management, individuals who have the authority and responsibility for planning, directing, and controlling the activities of the Company, for the year ended December 31, 2021, four months ended December 31, 2020, and year ended August 31, 2020 are as follows:

	For the year ended December 31, 2021	For the four months ended December 31, 2020	For the year ended August 31, 2020
Key Management Compensation			
Consulting fees	$ 210,386	$ -	$ -
Wages and benefits	163,983	65,400	80,748
Share-based compensation	541,048	-	-
	$ 915,417	$ 65,400	$ 80,748

12. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

Included in the accounts payable and accrued liabilities is $6,890 (December 31, 2020 – $31,830; August 31, 2020 – $Nil) related to the above compensation incurred with the Company's Chief Executive Officer.

Due from related party

The Company has recorded an impairment loss of $173,847 against the same amount due from Fit Products, LLC ("Fit Products") for working capital advances, resulting in a $Nil balance as at December 31, 2021 (December 31, 2020 – $58,544; August 31, 2020 – $5,846). Fit Products' sole member was a member of the Company's management. The amount before impairment bears no interest, has no stated terms of repayment and is unsecured. The impairment charge was recorded as the Company determined that the carrying amount may not be recoverable.

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 that was non-interest bearing, whereby the director in his sole discretion may convert the full balance of the outstanding principal into common shares, 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 13).

13. SHARE CAPITAL

a) Share capital

Authorized

Unlimited number of common voting shares without par value.

b) Issued and outstanding

(i) Share issuances

<u>During the year ended December 31, 2021:</u>

On November 12, 2021, an acquisition transaction was completed whereby the Company acquired all the issued and outstanding common shares of Bettermoo(d) and issued consideration of 9,000,0001 common shares of the Company, 10,000,000 warrants, and 700,000 stock options. The Company also issued 180,000 common shares, with a fair value of $297,000 as finders' fees.

On October 7, 2021, the Company issued 71,250 common shares with a fair value of $85,500 to three service providers to settle debt of $85,500.

On September 3, 2021, the Company issued 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 warrant, exercisable at a price of $2.50 for two years from the closing date. The warrants have a fair value of $Nil based on the residual value method.

13. SHARE CAPITAL (continued)

b) Issued and outstanding (continued)

(i) Share issuances (continued)

During the year ended December 31, 2021 (continued):

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, valued at $26,416. As at December 31, 2021, share subscription receivables of $5,000 was netted against share capital and received subsequent to year-end.

During the year ended December 31, 2021, pursuant to the exercise of stock options, the Company issued 45,000 common shares for proceeds of $14,400.

During the year ended December 31, 2021, pursuant to the exercise of warrants, the Company issued 1,070,000 common shares for proceeds of $428,000.

During the year ended December 31, 2021, pursuant to the exercise of broker warrants, the Company issued 17,990 common shares for proceeds of $4,498.

During the four-month period ended December 31, 2021 and year ended August 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 12) 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.

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

c) Warrants

Warrant transactions and the number of warrants outstanding as at December 31, 2021 and December 31, 2020 are summarized as follows:

	December 31, 2021		December 31, 2020		August 31, 2020	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning	10,183,333	$ 0.09	9,000,000	$ 0.05	-	-
Assumed from Reverse Takeover	-	$ -	1,183,333	$ 0.40	-	-
Granted	14,127,500	$ 1.72	-	-	9,000,000	$ 0.05
Exercised	(1,070,000)	$ 0.40	-	-	-	-
Expired	(113,333)	$ 0.40	-	-	-	-
Outstanding, ending	23,127,500	$ 1.07	10,183,333	$ 0.09	9,000,000	$ 0.05

The following warrants were outstanding and exercisable as at December 31, 2021:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding and Exercisable
March 2, 2022	0.17	$ 0.40	9,000,000
September 3, 2023	1.67	$ 2.50	4,127,500
November 12, 2023	1.87	$ 1.40	10,000,000
	1.17	$ 1.07	23,127,500

The fair value of 1,183,333 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 fair value of 10,000,000 warrants assumed from the asset acquisition was calculated using the Black-Scholes option pricing model based on the following weighted average assumptions: Expected life – 2 years; Risk-free interest rate – 0.98%; Expected annualized volatility –100%; Stock price at grant date - $1.65; Exercise price - $1.40; and Dividend yield – 0%. The Company has used a volatility of 100% with reference to the historical record of comparable public companies.

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

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

d) Broker warrants

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

	December 31, 2021		**December 31, 2020**		**August 31, 2020**	
	Number of Broker Warrants	Weighted Average Exercise Price	Number of Broker Warrants	Weighted Average Exercise Price	Number of Broker Warrants	Weighted Average Exercise Price
Outstanding, beginning	73,990	$ 0.25	-	-	-	-
Granted	-	-	73,990	$ 0.25	-	-
Exercised	(17,990)	$0.25	-	-	-	-
Expired	(56,000)	$0.25	-	-	-	-
Outstanding, ending	-	-	73,990	$ 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.

e) 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.

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

	December 31, 2021		**December 31, 2020**		**August 31, 2020**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning	95,000	$ 0.32	-	-	-	-
Assumed from Reverse Takeover	-	-	95,000	$ 0.32	-	-
Granted	2,900,000	$ 0.87			-	-
Exercise	(45,000)	$ 0.32	-	-	-	-
Forfeited	(50,000)	$ 0.32			-	-
Outstanding, ending	2,900,000	$ 0.87	95,000	$ 0.32	-	-

(Expressed in Canadian Dollars)

13. SHARE CAPITAL (continued)

e) Stock options (continued)

The following stock options were outstanding and exercisable as at December 31, 2021:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding and Exercisable
July 9, 2026	4.52	$ 1.05	2,200,000
November 12, 2026	4.87	$ 0.30	700,000
	4.61	$ 0.87	2,900,000

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:

	Year ended December 31, 2021	**Four months ended December 31, 2020**	**Year ended August 31, 2020**
Risk-free interest rate	1.06%	0.25%	-
Expected option life in years	5 years	2.47 years	-
Expected share price volatility*	100%	150%	-
Expected forfeiture rate	-	-	-
Expected dividend yield	Nil	Nil	Nil

*The share price volatility was determined based on the Company's historical volatility and comparable entities' historical volatility in share price due to the Company's limited trading history.

14. 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 11).

(Expressed in Canadian Dollars)

15. SUPPLEMENTAL CASH FLOW INFORMATION

	For the year ended December 31, 2021	For the four months ended December 31, 2020	For the year ended August 31, 2020
Cash paid during the period			
Interest	$ 749	$ -	$ -
Income taxes	$ -	$ -	$ -
Non-cash financing and investing activities			
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	$ -	$ -
Fair value of shares issued as consideration for Bettermoo(d)	$ 14,850,002	$ -	$ -
Fair value of warrants issued as consideration for Bettermoo(d)	$ 9,308,645	$ -	$ -
Fair value of options issued as consideration for Bettermoo(d)	$ 1,049,939	$ -	$ -
Fair value of stock options granted on July 9, 2021	$ 1,810,000	$ -	$ -
Impairment of inventory to cost of goods sold	$ 10,757	$ -	$ -

16. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and promissory notes approximate their fair values due to their short-term nature.

a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit risk the Company is exposed to is 100% of cash and its receivables. The Company’s cash is held at a large Canadian financial institution. At December 31, 2021, $65,167 of accounts receivable primarily consist of refundable government goods and services tax.

b) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The accounts payable and accrued liabilities are typically due in 30 days, which are settled using cash. As at December 31, 2021, the Company has a working capital of $1,568,435.

Management is considering different alternatives to secure adequate debt or equity financing to meet the Company’s short term and long-term cash requirement.

At present, the Company’s operations do not generate positive cash flow. The Company’s primary source of funding has been the issuance of equity securities. Despite previous success in acquiring financing, there is no guarantee of obtaining future financings.

16. FINANCIAL INSTRUMENTS (continued)

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's operations, income, or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns. The Company is exposed to market risk as follows:

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to significant interest rate risk due to the short-term to maturity of its financial instruments. The Company had no interest rate swap or financial contracts in place as at December 31, 2021. Interest rate risk is minimal as promissory notes have a fixed interest rate.

ii) Price risk

The Company has limited exposure to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market.

17. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard its ability to continue as a going concern. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and adjusts it to effectively support the Company's objectives. In order to pay for general administrative costs, the Company will raise additional amounts as needed.

The Company reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company considers shareholders' equity and working capital as components of its capital base. The Company may access capital through the issuance of shares or the disposition of assets. Management historically funds the Company's expenditures by issuing share capital rather than using capital sources that require fixed repayments of principal and/or interest. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products. The Company believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto.

There were no changes to the Company's approach to capital management during the year ended December 31, 2021.

18. CONTINGENCIES

The Company may be involved in legal claims or disputes that arise in the normal course of operations. Management is of the opinion that the outcome of such claim(s) or potential claim(s), if any, will not have a material adverse impact on the Company's financial position or results of operations. Accordingly, no provision was made for the outstanding claim as at the date of the consolidated financial statements.

(Expressed in Canadian Dollars)

19. INCOME TAXES

Income tax expense differs from the amount that would result from applying Canadian federal and provincial income tax rates to earnings before income taxes. A reconciliation of income taxes at statutory rates with reported taxes is as follows:

	December 31, 2021	December 31, 2020	August 31, 2020
Income (loss) before income taxes	$ (28,842,121)	$ (1,330,607)	$ (3,611,354)
Statutory income tax rate	27%	27%	27%
Income tax benefit computed at statutory tax rate	$ (7,787,000)	$ (359,000)	$ (975,000)
Non-deductible items (net)	7,020,900	280,259	544,394
Different effective tax rates in foreign jurisdiction	-	(3,297)	(75,838)
Other	(123,900)	(426,962)	7,444
Unrecognized benefit of deferred income tax assets	892,000	509,000	499,000
Income tax expense (recovery)	$ -	$ -	$ -

The significant components of the Company's unrecognized temporary differences at December 31, 2021, and 2020 are presented below:

	December 31, 2021	December 31, 2020	August 31, 2020
Non-capital losses carried forward	$ 3,065,000	$ 2,180,000	$ 1,671,000
Share issuance costs	13,000	6,000	-
	3,078,000	2,186,000	1,671,000
Unrecognized temporary differences	(3,078,000)	(2,186,000)	(1,671,000)
Net temporary differences	$ -	$ -	-

As at December 31, 2021, the company had estimated Canadian non-capital losses of $4,380,000 in tax loss carry forwards. These non-capital losses are available to be carried forward and applied against taxable income earned in Canada over the next 20 years and expire up to 2041. The Company has estimated U.S. state and local net operating losses of $6,320,000. These non-capital losses are available to be carried forward and applied against taxable jurisdiction income in the U.S. over the next 20 years and expire up to 2040. The deferred tax benefit of these tax losses has not been recognized as an asset due to the uncertainty or realizing net income in future tax years.

20. SUBSEQUENT EVENTS

a) On January 25, 2022, the Company issued 1,550,000 stock options. The options have an exercise price of $1.35, vest immediately upon grant, and have a term to expiry of five years on January 25, 2027.

b) Subsequent to year-end, the Company issued 9,000,000 common shares pursuant to the exercise of 9,000,000 warrants at a price of $0.05 for gross proceeds of $450,000.