



HAPPY BELLY FOOD GROUP INC.
(Previously Plant & Co. Brands Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	4
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS.....	5
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS.....	8
1. NATURE AND GOING CONCERN	8
2. BASIS OF PREPARATION.....	8
3. SIGNIFICANT ACCOUNTING POLICIES.....	10
4. ACQUISITIONS	16
5. EQUITY INVESTMENTS.....	20
6. INVENTORY	20
7. PROPERTY AND EQUIPMENT.....	20
8. INTANGIBLE ASSETS	21
9. GOODWILL	21
10. LEASE LIABILITIES	23
11. LONG-TERM DEBT	24
12. SHARE CAPITAL.....	26
13. RELATED PARTY TRANSACTIONS	29
14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES.....	29
15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT	29
16. GENERAL AND ADMINISTRATIVE EXPENSES.....	31
17. SUPPLEMENTAL CASH FLOW INFORMATION.....	31
18. SEGMENTED INFORMATION	32
19. INCOME TAX.....	33
20. SUBSEQUENT EVENT	33
21. COMPARATIVE FIGURES.....	33



BUCHANAN BARRY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Happy Belly Food Group Inc.

Opinion

We have audited the consolidated financial statements of Happy Belly Food Group Inc. (the "Company") (formerly Plant & Co. Brands Ltd.), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and the consolidated financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the consolidated 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.

Emphasis of Matter – Material Uncertainty Relating to Going Concern

We draw your attention to Note 1 in the consolidated financial statements, which indicates the Company's uncertainty in its ability to raise sufficient funds in the future to finance its operations. This condition, along with other matters stated in Note 1, 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 this matter.

Other Matter

The consolidated financial statements for the year ended December 31, 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on May 2, 2022.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matters described in the *Material Uncertainty Relating to Going Concern* section above, we have determined that there are no other key audit matters to communicate in our report.

Other Information

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

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

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

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

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

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

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

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

Calgary, Alberta
April 17, 2023

Buchanan Barry LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

HAPPY BELLY FOOD GROUP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As At	Notes	December 31, 2022	December 31, 2021
<i>(Canadian dollars)</i>		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		1,101,960	936,167
Accounts receivable		100,167	52,230
Other receivables		256,720	48,269
Equity investments	5	59,276	75,171
Inventory	6	269,188	140,583
Prepays		61,938	59,918
HST recoverable		-	15,845
		1,849,249	1,328,183
Property and equipment	7	1,251,434	550,754
Intangible assets	8	193,249	456,980
Interest in sublease	10	83,668	-
Goodwill	9	905,239	1,331,701
TOTAL ASSETS		4,282,839	3,667,618
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	14	514,622	246,289
HST payable		72,790	-
Current portion of long-term debt	11	198,487	-
Current portion of lease liabilities	10	164,022	59,873
Other liabilities		4,910	8,400
		954,831	314,562
Long-term debt	11	196,001	90,614
Convertible debentures	11	1,750,719	-
Lease liabilities	10	594,583	187,533
TOTAL LIABILITIES		3,496,134	592,709
SHAREHOLDERS' EQUITY			
Share capital	12	35,757,040	35,466,818
Share subscriptions receivable	12	(63,845)	(63,845)
Convertible debenture-equity portion	11	265,797	-
Treasury shares	4,12	(222,222)	-
Contributed surplus	12	11,288,339	11,283,229
Deficit		(46,308,610)	(43,634,931)
Non-controlling interest		70,206	23,638
TOTAL SHAREHOLDERS' EQUITY		786,705	3,074,909
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		4,282,839	3,667,618

See accompanying notes to the consolidated financial statements.

Nature and going concern (Note 1)
Commitments (Note 15)
Subsequent events (Notes 12, 20)

HAPPY BELLY FOOD GROUP INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

<i>(Canadian dollars)</i>	Notes	Year ended December 31,	
		2022	2021
		\$	\$
Product sales		2,734,496	1,203,088
Cost of sales		1,527,985	596,522
Gross profit		1,206,511	606,566
Consulting revenue		-	46,265
Expenses			
Compliance and regulatory		109,296	323,068
Amortization	7,8	537,667	531,174
Financing costs	10,11	266,639	47,000
General and administrative	16	2,553,453	4,429,131
Platform development		14,107	139,442
Share-based compensation	12,13	5,110	6,540,303
Total expenses		3,486,272	12,010,118
Loss before other items		(2,279,761)	(11,357,287)
Other items			
Impairment	7,8,9	(495,462)	(15,216,053)
Gain on recognition of sublease	10	22,946	-
Realized gain on equity investment		-	79,035
Unrealized loss on equity investment	5	(39,532)	(50,893)
Foreign exchange gain (loss)		(604)	4,869
Grant income	11	16,303	62,956
Bad debt expense		-	(100,000)
Other income		33,158	-
Total loss and comprehensive loss		(2,742,952)	(26,577,373)
Per share information			
Net loss per share – basic and diluted		\$(0.03)	\$(0.27)
Weighted average number of common shares outstanding – basic and diluted		105,999,554	98,568,398

See accompanying notes to the consolidated financial statements.

HAPPY BELLY FOOD GROUP INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Canadian dollars)</i>	Notes	Number of Common Shares	Share Capital	Contributed Surplus	Share Subscriptions Receivable	Treasury Shares	Convertible Debentures	Accumulated Deficit	Non- Controlling Interest	Total
			\$	\$	\$	\$	\$	\$	\$	\$
Balance at December 31, 2020		67,813,414	18,300,070	3,565,293	(339,552)	-	-	(17,033,920)	-	4,491,891
Private placement	12	3,000,000	600,000	-	-	-	-	-	-	600,000
Issuance of common shares for debt and services	12	109,589	85,479	-	-	-	-	-	-	85,479
Issuance of common shares upon exercise of options	12	1,577,000	890,285	(359,035)	(208,000)	-	-	-	-	323,250
Issuance of common shares upon exercise of warrants	12	2,212,590	632,337	(64,190)	-	-	-	-	-	568,147
Share exchange – corporate acquisitions	4	29,644,828	15,058,647	1,600,857	-	-	-	-	-	16,659,504
Cancellation of shares returned to treasury		(200,000)	(100,000)	-	-	-	-	-	-	(100,000)
Share based compensation	12, 13	-	-	6,540,304	-	-	-	-	-	6,540,304
Debts settled		-	-	-	483,707	-	-	-	-	483,707
Dividends	8	-	-	-	-	-	-	(23,638)	23,638	-
Net and comprehensive loss		-	-	-	-	-	-	(26,577,373)	-	(26,577,373)
Balance at December 31, 2021		104,157,421	35,466,818	11,283,229	(63,845)	-	-	(43,634,931)	23,638	3,074,909
Share exchange – corporate acquisitions	4, 12	2,777,777	222,222	-	-	(222,222)	-	-	-	-
Issuance of common shares upon exercise of warrants	12	272,000	68,000	-	(32,659)	-	-	-	-	35,341
Relinquishment of minority interest on change in control	2	-	-	-	-	-	-	-	(23,638)	(23,638)
Share based compensation	12	-	-	5,110	-	-	-	-	-	5,110
Debts settled		-	-	-	32,659	-	-	-	-	32,659
Convertible debentures	11	-	-	-	-	-	265,797	-	-	265,797
Non-controlling interests – investment		-	-	-	-	-	-	-	139,479	139,479
Non-controlling interests – net loss		-	-	-	-	-	-	69,273	(69,273)	-
Net and comprehensive loss		-	-	-	-	-	-	(2,742,952)	-	(2,742,952)
Balance at December 31, 2022		107,207,198	35,757,040	11,288,339	(63,845)	(222,222)	265,797	(46,308,610)	70,206	786,705

See accompanying notes to the consolidated financial statements.

HAPPY BELLY FOOD GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars)	Notes	Year ended December 31,	
		2022	2021
		\$	\$
Operating Activities			
Net loss		(2,742,952)	(26,577,373)
Items not affecting cash and cash equivalents:			
Amortization	7,8	537,667	531,174
Financing costs	10,11	144,266	42,570
Impairment	8,9	495,462	15,216,053
Bad debt expense		-	100,000
Share based compensation	12,13	5,110	6,540,303
Shares issued for services		-	85,479
Gain on recognition of sublease	10	(22,946)	-
Gain (loss) on equity investment	5	39,532	(28,141)
Grant income	11	(16,303)	(3,146)
		(1,560,164)	(4,093,081)
Net change in non-cash working capital related to operations	17	(58,036)	(83,497)
Cash flows used in operating activities		(1,618,200)	(4,176,578)
Investing Activities			
Intangible asset expenditures	8	(10,803)	-
Property and equipment expenditures	7	(106,695)	(4,495)
Property and equipment dispositions	7	6,000	-
Purchase of equity investments	5	-	(326,064)
Acquired cash	4	80,469	156,970
Corporate acquisition	4	-	(770,000)
Proceeds from sale of equity investment	5	-	279,035
Cash flows used in investing activities		(31,029)	(664,554)
Financing Activities			
Proceeds from the issuance of shares (net of issuance costs)	12	-	600,000
Proceeds from convertible debentures	11	1,947,050	-
Repayment of long-term debt	11	(24,490)	-
Proceeds from government loan	11	-	10,000
Proceeds from option exercises	12	-	323,250
Proceeds from warrant exercises	12	35,341	568,147
Proceeds from sublease	10	4,096	-
Lease liabilities settled	10	(146,975)	(124,055)
Share subscriptions settled		-	283,707
Obligation to issue shares		-	(20,000)
Cash flows from financing activities		1,815,022	1,641,049
Increase (decrease) in cash		165,793	(3,200,083)
Cash, beginning of year		936,167	4,136,250
Cash, end of year		1,101,960	936,167
Cash and cash equivalents consist of:			
Cash		1,041,960	876,167
Cash equivalents		60,000	60,000

See accompanying notes to the consolidated financial statements.
Non-cash transactions (Notes 2, 4, 7)

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE AND GOING CONCERN

Happy Belly Food Group Inc. (previously Plant & Co. Brands Ltd.) (the “Company” or “Happy Belly”) was incorporated pursuant to the Canada Business Corporations Act on November 24, 2014. On August 12, 2019, the Company changed its name from Cannvas MedTech Inc. to Eurolife Brands Inc. On December 4, 2020, the Company changed its name from Eurolife Brands Inc. to Plant & Co. Brands Ltd. On September 1, 2022, the Company changed its name from Plant & Co. Brands Ltd. to Happy Belly Food Group Inc.

On June 23, 2017, the Company continued from the federal jurisdiction to the jurisdiction of British Columbia. The Company's corporate office is located at Suite 400, 1681 Chestnut Street, Vancouver, British Columbia V6J 4M6.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

Details of deficit and working capital of the Company are as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Deficit	(46,308,610)	(43,634,931)
Working capital	894,418	1,013,621

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The Company relies upon the issuance of securities for financing of its operations. The Company intends to continue relying upon the issuance of securities to finance its operations to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements, and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the consolidated statement of financial position classifications used. These consolidated financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements for the years ended December 31, 2022, and 2021 were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). As part of this preparation, management is required to make estimates and assumptions under IFRS. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent amounts and the reported amounts of revenues and expenses. Although these estimates are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed within the notes.

These consolidated financial statements were reviewed by the Audit Committee and authorized for issuance by the Board of Directors as of April 17, 2023.

Basis of consolidation

A subsidiary is an entity the Company controls when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

These consolidated financial statements include the accounts of the Company and its subsidiaries as follows:

Subsidiary name	Jurisdiction	Ownership interest
Plant & Company Brands Group Inc.	British Columbia, Canada	100%
Holy Crap Foods Inc.	British Columbia, Canada	100%
JBD Innovations Ltd.	Ontario, Canada	100%
2574578 Ontario Inc.	Ontario, Canada	100%
1000317391 Ontario Inc.	Ontario, Canada	100%
1000061911 Ontario Inc.	Ontario, Canada	51%
1000193142 Ontario Inc.	Ontario, Canada	50%
Heal Lifestyle Inc.	Ontario, Canada	50%

In the year ended December 31, 2021, the Company consolidated Blackwell Intelligence Inc. ("Blackwell") as a 50% owned subsidiary, however due to new shares being issued by Blackwell in 2022, the Company's interest fell below 50% and the Company no longer has control. As a result, Blackwell's accounts receivable of \$47,275 is no longer being consolidated into the Company. Since this transaction is non-cash in nature, it has been excluded from the consolidated statements of cash flows. The investment in Blackwell is included in equity investments on the consolidated statements of financial position.

Presentation and functional currency

The functional currency of the parent company and all its subsidiaries is the Canadian dollar, which is also the presentation currency of the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Significant accounting judgments and estimates

The preparation of these consolidated financial statements is in conformity with IFRS and requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimates and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial period: expected life of property and equipment and intangible assets, valuation of financial assets, impairment of non-financial assets, share-based compensation, discount rate used in determining right-of-use assets and lease liabilities, and interest rate used in valuing convertible debentures.

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgements in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the annual financial statements. Judgement is also required in the determination of whether the Company will continue as a going concern.

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the classification of financial assets and liabilities under IFRS 9-Financial Instruments:

Cash and cash equivalents	FVTPL
Equity investments	FVTPL
Other receivables	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Other liabilities	Amortized cost
Long-term debt	Amortized cost
Convertible debentures	Amortized cost

Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive loss.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in the statements of loss and comprehensive loss.

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 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 the consolidated statements of loss and comprehensive 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.

Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other loss and comprehensive loss.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition. Inventory is comprised of raw materials and finished goods. The cost of inventory is determined using the weighted average method.

Net realizable value is calculated as the difference between the estimated selling price and estimated costs to complete processing into a saleable form. Inventory is written down to net realizable value when the cost of inventory is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When the circumstances that previously caused inventory to be written down below cost no longer exist, the amount of write-down previously recorded is reversed.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Assets acquired and liabilities assumed are measured at their fair value as at the acquisition date. Acquisition costs are expensed in the period incurred.

Any contingent consideration to be transferred by the Company will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is determined to be an asset or liability will be recognized in accordance with IFRS 9 – Financial Instruments, either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the fair value of consideration transferred over the fair value of the net identifiable assets acquired in a business combination. Any negative difference is considered a bargain purchase and is recognized directly in the consolidated statements of loss and comprehensive loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit ("CGU"), which is expected to benefit from the synergies of the business combination.

Goodwill is tested annually for impairment or more frequently when there is an indication that goodwill may be impaired. Impairment is determined for goodwill by assessing if the carrying value of a CGU, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell and the value in use. Impairment losses recognized in respect of a CGU are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of other assets in the CGU on a pro rata basis. Goodwill impairment is recorded in the consolidated statements of loss and comprehensive loss in the period of impairment. Impairment losses on goodwill are not reversed in subsequent periods. The Company completes its annual impairment test as at December 31.

Property and equipment

Property and equipment is stated at historical cost less accumulated amortization and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of loss and comprehensive loss during the financial period in which they are incurred. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the consolidated statement of loss and comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of property and equipment are as follows:

Class of property and equipment	Amortization rate
Computer equipment	33%
Furniture and fixtures	20%
Vehicles	20%
Leasehold improvements	Term of lease
Right-of-use assets	Term of lease

When assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset, the costs and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is recognized in profit or loss.

Intangible assets

Intangible assets are initially recognized at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses. The intangible assets are amortized on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The estimated useful lives and depreciation methods are reviewed annually, with any changes in estimate accounted for prospectively.

Intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

Class of intangible asset	Amortization rate
Licenses	10 years
Brand names	3 years
Recipe, processes and formulas	3 years
Distribution relationships	2 years

Impairment

At each financial position reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of loss and comprehensive loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the consolidated statement of loss and comprehensive loss for the year.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares.

The proceeds from the exercise of share options and warrant and issuance of shares from treasury are recorded as share capital in the amount for which the option, warrant, or treasury share enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value on the date the shares are issued.

The proceeds from the issue of units consisting of a common share and a share purchase warrant is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market closing price on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes Option Pricing Model.

In the event there is a change to the warrant terms (price or exercise date), no change is made to the initial value recognized for the warrant.

Revenue

Under IFRS 15, Revenue from Contracts with Customers, revenue is recognized on transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price, which is the total consideration provided by the customer;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Sales revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involved with the goods, and the amount of revenue can be measured reliably. The transfer of risks and rewards occurs when the product is received by the customer. As such, there are no material contract assets (unbilled receivables) or contract liabilities (deferred revenue) that are present as at year-end.

Share-based payment transactions

The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes Option Pricing Model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, fair value is measured at grant date at the fair value of the goods or services received, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Income taxes

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

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is more likely than not that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

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

Loss per share

The Company presents basic and diluted earnings (loss) per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Right of use assets and lease liability

At inception of a contract the Company assesses whether a contract conveys the right to control the use of an identified assets for a period in exchange for consideration, in which case it is classified as a lease. The Company recognizes a right-of-use asset ("ROU asset") and a lease liability at the lease commencement date. The asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received. The lease asset is subsequently depreciated using the straight-line method from the commencement date to the end of the useful life of the right-of-use asset, considered to be indicated by the lease term. The lease asset is periodically adjusted for certain remeasurements of the lease liability and impairment losses, if any.

The lease liability is initially measured at the present value of outstanding lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. A corresponding adjustment is made to the carrying amount of the right-of-use asset with any excess over the carrying amount of the asset being recognized in profit or loss. The Company also has the right to elect to not recognize short-term leases (leases with a term of 12 months or less) and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Interest in sublease

At inception of a sublease contract the Company assesses whether a contract conveys the right to control the use of an identified asset for a period in exchange for consideration, in which case it is classified as a lease. The Company derecognizes the portion of the ROU asset being subleased and recognizes an interest in sublease asset; the difference between the value of the ROU asset being derecognized and the interest in sublease asset being recognized is recognized, though profit or loss, as a gain or loss on recognition of sublease at the sublease commencement date.

The interest in sublease asset is initially measured at the present value of outstanding sublease payments, discounted using the interest rate of the underlying lease. The interest in the sublease asset is measured at amortized cost using the effective interest method and is remeasured when there is a change in future sublease payments. The Company also has the right to elect not to recognize short-term subleases (subleases with a term of 12 months or less) and subleases of low-value assets. The Company recognizes the sublease payments associated with these subleases as income on a straight-line basis over the lease term.

Government grants

Government grants are recognized in the consolidated statements of loss and comprehensive loss over the periods in which the entity recognizes expenses for the related costs for which the grants are intended to compensate. Government grants are recognized only when there is reasonable assurance that the Company will comply with the condition attached to the grant and that the grant will be received.

Investment tax credits related to the research and development expenditures are accrued as an offset to the expense when there is reasonable assurance that the credits will be realized. Investment tax credits under the Scientific Research and Experimental Development Incentive Programs are subject to government approval.

The Company accounts for a forgivable loan from the government as a government grant when there is reasonable assurance that the Company will meet the terms for the forgiveness of the loan. The Company records the government loan at its estimated fair value at the date in which the payments are recorded. The estimated fair value of the loan is determined using the effective interest rate method. The difference between the fair value and the proceeds of the interest free loans is a benefit and is also accounted for as a government grant. The benefit is accreted to the loan over the term of the loan.

Segment reporting

The Company has two operating segments: Consumer Product Goods and Quick Restaurant Services. In identifying these operating segments, management generally follows the Company's service lines representing its main products and services (see note 18).

Each of these operating segments is managed separately as each requires different technologies, marketing approaches and other resources. All inter-segment transfers are carried out at arm's length prices based on prices charged to unrelated customers in stand-alone sales of identical goods or services.

Consumer Product Goods

The Company consumer product goods currently consist of two brands namely, Holy Crap which produces and sells breakfast cereal and related food products, and Lumber Heads which produces and sells snack foods. The Company offers its products under these brand names which are gluten-free, organic, kosher and plant-based. It markets its products through retailers as well as online retailers and its own website.

Quick Restaurant Services

The Company operates a number of plant-based restaurants namely; Yamchops, Heal Lifestyle and Lettuce Love, in southern Ontario.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment. This primarily applies to the Company's head office.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Future Accounting Pronouncements

Certain upcoming new or amended standards or interpretations issued by the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRIC) do not have to be early adopted in the current year.

The standards issued, but not yet effective, are described below:

- IAS 1 – Presentation of Financial Statements was amended in January 2020 to (i) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period; (ii) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and (iii) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services. The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and are to be applied retrospectively. Early adoption is permitted.
- IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) was amended in February 2021 to introduce the definition of an accounting estimate and include other amendments to IAS 8 to help entities distinguish changes in accounting estimates from changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Early adoption is permitted.
- IAS 12 – Income Taxes was amended, relating to the deferred tax related assets and liabilities arising from a single transaction. The amendment is effective January 1, 2023. Earlier adoption is permitted.

The Company will adopt these amendments as of their effective dates and is currently assessing their impacts on adoption. There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the consolidated financial statements once adopted.

4. ACQUISITIONS

Lettuce Love acquisition

On October 11, 2022, the Company completed an asset purchase agreement for substantially all of the assets and property of 2563434 Ontario Inc. (“Lettuce Love acquisition”) in exchange for assuming the liabilities of \$172,287.

The acquisition was accounted for as a business combination under IFRS 3, using the acquisition method, with the operating results included in the Company’s financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by the Company were allocated as follows:

Fair value of net assets acquired, and liabilities assumed		\$
Working capital		33,157
Property and equipment		243,400
Recipe, processes and formulas		54,855
Lease liabilities		(159,125)
		<u>172,287</u>
Consideration		\$
Loans		172,287
		<u>172,287</u>

The Company assumed inventory of \$29,007 and prepaids of \$3,500 as part of the Lettuce Love acquisition. Since these transactions are non-cash in nature, they have been excluded from the consolidated statements of cash flows.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

If the Lettuce Love acquisition had been effective on January 1, 2022, the pro forma results of the revenue and net income for the year ended December 31, 2022 would have been as follows:

	Year ended December 31, 2022		
	As stated	Amounts prior to acquisition	Pro forma
	\$	\$	\$
Revenue	2,734,496	628,203	3,362,699
Net Income/(loss)	(2,742,952)	102,718	(2,640,234)

The pro forma results of operations are not intended to reflect the results that would have actually occurred had the acquisition closed on January 1, 2022. Further, the pro forma results of operations are not necessarily indicative of the results that may be generated by the Company in the future or reflect future events that may occur following the acquisition in subsequent periods.

Heal Lifestyle acquisition

On May 5, 2022, the Company entered into a share exchange agreement (the "Agreement") with the shareholders of Heal Lifestyle Inc. (the "Vendors") and 1000193142 Ontario Inc., (the "JVCo"). Pursuant to the Agreement:

- JVCo acquired all of the issued and outstanding securities in the capital of Heal Lifestyle Inc. (the "Heal Shares") from the Vendors, in exchange for 200 common shares (the "JVCo Shares") of the JVCo.
- Happy Belly subscribed for 200 JVCo Shares in exchange for 2,777,777 common shares in the capital of Happy Belly
- The Vendors, Happy Belly and the JVCo entered into an agreement (the "Shareholders Agreement") providing, among other things, Happy Belly the right to appoint three (3) of five (5) directors of the JVCo, and the Vendors the right to appoint two (2) of five (5) directors of the JVCo; and
- The JVCo issued a non-interest bearing promissory note (the "Promissory Note") to Happy Belly in the aggregate amount of \$163,296, representing the debt and accrued interest of Heal Lifestyle Inc. as at the closing date.

Upon closing of the acquisition, Heal Lifestyle Inc. is a wholly owned subsidiary of the JVCo, which is in turn owned 50% by Happy Belly and 50% by the Vendors. As a result of the Shareholders Agreement, the board of directors of the JVCo is controlled by Happy Belly, subject to certain limited corporate actions that require unanimous consent of the the JVCo board.

Heal Lifestyle Inc. operates three plant-based quick serve restaurants in southern Ontario.

The acquisition was accounted for as a business combination under IFRS 3, using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by the Company were allocated as follows:

Fair value of net assets acquired, and liabilities assumed	\$
Working capital	19,426
Property and equipment	619,889
Recipe, processes and formulas	27,719
Lease liabilities	(444,568)
Notes payable	(152,062)
Non-controlling interest	(11,478)
	58,926
Consideration	\$
Promissory note	(163,296)
Shares issued (2,777,777)	222,222
	58,926

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The Company assumed accounts receivable of \$117,347, inventory of \$6,552, prepaids of \$2,261 and accounts payable of \$186,552 as part of the Heal Lifestyle acquisition. Since these transactions are non-cash in nature, they have been excluded from the consolidated statements of cash flows.

If the Heal Lifestyle acquisition had been effective on January 1, 2022, the pro forma results of the revenue and net income for the year ended December 31, 2022, would have been as follows:

	Year ended December 31, 2022		
	As stated	Amounts prior to acquisition	Pro forma
	\$	\$	\$
Revenue	2,734,496	426,205	3,160,701
Net income/(loss)	(2,742,952)	(22,103)	(2,765,055)

The pro forma results of operations are not intended to reflect the results that would have actually occurred had the acquisition closed on January 1, 2022. Further, the pro forma results of operations are not necessarily indicative of the results that may be generated by the Company in the future or reflect future events that may occur following the acquisition in subsequent periods.

Lumber Heads Food Co. acquisition

On February 1, 2022, pursuant to a share purchase agreement, the Company acquired 51% of the issued and outstanding common shares of Lumber Heads Food Co. in exchange for providing an interest free loan of \$75,000 to Lumber Heads Food Co. Lumber Heads Food Co. is a boutique plant-based snack food manufacturer based in Ontario.

The acquisition was accounted for as a business combination under IFRS 3, using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by the Company were allocated as follows:

Fair value of net assets acquired, and liabilities assumed	\$
Working capital	18,000
Property and equipment	51,075
Non-controlling interest	(69,075)

The Company assumed inventory of \$18,000 as part of the Lumber Heads acquisition. Since this transaction is non-cash in nature, it has been excluded from the consolidated statements of cash flows.

If the Lumber Heads acquisition had been effective on January 1, 2022, the pro forma results of the revenue and net income for the year ended December 31, 2022, would have been as follows:

	Year ended December 31, 2022		
	As stated	Amounts prior to acquisition	Pro forma
	\$	\$	\$
Revenue	2,734,496	11,444	2,745,940
Net income/(loss)	(2,742,952)	4,474	(2,738,478)

The pro forma results of operations are not intended to reflect the results that would have actually occurred had the acquisition closed on January 1, 2022. Further, the pro forma results of operations are not necessarily indicative of the results that may be generated by the Company in the future or reflect future events that may occur following the acquisition in subsequent periods.

Holy Crap Corporate acquisition

On February 12, 2021, the Company, via its wholly owned subsidiary Plant & Company Brands Group Inc., completed an amalgamation with Holy Crap Brands Inc. ("Holy Crap") whereby the Company issued 29,300,000 common shares to the current Holy Crap shareholders and 4,000,000 share purchase warrants entitling the current warrant holders to purchase one common share of the Company at a price of \$0.40 until May 2, 2022. The warrants were valued at \$1,600,857 using

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

the Black-Scholes Option Pricing Model with the following inputs: expected price volatility of 160%, risk free interest rates of 0.12%, expected life of 1.22 years and no dividend yield. The common shares were discounted by 12.9% due to the resale restrictions of the shares.

Holy Crap produces a high fiber plant based super-seed nutritional cereal that is sold online and in retail locations across Canada. The acquisition was accounted for as a business combination under IFRS 3, using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition. The fair values of the identifiable assets acquired, and liabilities assumed by the Company were allocated as follows:

Fair value of net assets acquired, and liabilities assumed	\$
Working capital	212,661
Property and equipment	202,679
Brand name	260,416
Distributor relationship	246,699
Lease liabilities	(151,047)
Note payable	(28,123)
Goodwill	15,671,553
	16,414,838
<hr/>	
Consideration	\$
Shares issued (29,300,000)	14,813,981
Share purchase warrants (4,000,000)	1,600,857
	16,414,838

Yamchops Corporate acquisition

On January 18, 2021, pursuant to a share purchase agreement, the Company acquired 100% of the issued and outstanding common shares of 2574578 Ontario Inc. and JDB Innovations Ltd., collectively referred to as "Yamchops" in exchange for payment of \$770,000 and the issuance of 344,828 common shares of the Company. The common shares issued were discounted by 9% due to the resale restrictions of the shares. The Company issued an additional 109,589 common shares as a finder's fee, valued at \$85,479, which was expensed.

Yamchops is a plant-based butcher and marketplace restaurant offering protein alternatives, prepared foods, meals and specialty food products in Toronto, Ontario. The acquisition was accounted for as a business combination under IFRS 3, using the acquisition method, with the operating results included in the Company's financial and operating results commencing on the closing date of the acquisition.

The fair values of the identifiable assets acquired, and liabilities assumed by the Company were allocated as follows:

Fair value of net assets acquired, and liabilities assumed	\$
Working capital	(21,302)
Property and equipment	482,195
Brand name	110,163
Recipe, processes and formulas	86,465
Lease liabilities	(142,740)
Notes payable	(20,518)
Goodwill	520,402
	1,014,665
<hr/>	
Consideration	\$
Cash	770,000
Shares issued (344,828)	244,665
	1,014,665

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

5. EQUITY INVESTMENTS

The Company made select equity investments in the past. As at December 31, 2022, the Company had an unrealized loss on equity investments of \$39,532 (2021 - \$50,893). The Company had no realized gains or losses in 2022 (2021 - \$79,035).

The fair value of the Company's equity investments as at year end are as follows:

	Valuation method (Note 15)	December 31, 2022	December 31, 2021
		\$	\$
Investment in publicly traded companies	Level 1	-	29,167
Investment in private companies	Level 3	59,276	35,638
Warrants of publicly traded companies	Level 3	-	10,366
		59,276	75,171

6. INVENTORY

Inventories on hand consist of raw ingredients and finished goods. Inventory is valued at the lower of cost and net realizable value:

	Raw ingredients	Finished goods	Total
	\$	\$	\$
Cost			
At December 31, 2020	-	18,590	18,590
Change in year	95,670	26,323	121,993
At December 31, 2021	95,670	44,913	140,583
Change in year	117,903	10,702	128,605
At December 31, 2022	213,573	55,615	269,188

7. PROPERTY AND EQUIPMENT

	Computer equipment	Furniture and fixtures	Leasehold improvements	Vehicles	ROU assets	Total
Cost	\$	\$	\$	\$	\$	\$
December 31, 2020	43,140	232,254	47,355	-	110,202	432,951
Corporate acquisitions	-	139,433	225,000	26,653	293,787	684,873
Additions	3,996	499	-	-	-	4,495
December 31, 2021	47,136	372,186	272,355	26,653	403,989	1,122,319
Dispositions	-	(6,000)	-	-	(64,819)	(70,819)
Corporate acquisitions	-	215,768	94,903	-	603,693	914,364
Additions	1,520	42,195	53,898	-	9,082	106,695
December 31, 2022	48,656	624,149	421,156	26,653	951,945	2,072,559
Accumulated amortization						
December 31, 2020	26,170	19,228	47,355	-	61,256	154,009
Impairment	-	155,812	-	-	-	155,812
Amortization	6,919	70,592	65,853	5,331	113,049	261,744
December 31, 2021	33,089	245,632	113,208	5,331	174,305	571,565
Amortization	5,137	50,812	62,088	4,264	127,259	249,560
December 31, 2022	38,226	296,444	175,296	9,595	301,564	821,125
Net book value						
December 31, 2021	14,047	126,554	159,147	21,322	229,684	550,754
December 31, 2022	10,430	327,705	245,860	17,058	650,381	1,251,434

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The disposition of ROU assets in 2022 relates to the derecognition of ROU assets on the sublease of one of the locations being leased by the Company. This transaction is non-cash in nature, and therefore has been excluded from the consolidated statements of cash flow.

8. INTANGIBLE ASSETS

Intangible assets	Licenses	Brand names	Distribution relationships	Recipe, processes and formulas	Total
	\$	\$	\$	\$	\$
December 31, 2020	204,000	-	-	-	204,000
Corporate acquisition	-	370,579	246,699	86,465	703,743
Amortization	(22,667)	(111,066)	(108,395)	(27,302)	(269,430)
Impairment expense	(181,333)	-	-	-	(181,333)
December 31, 2021	-	259,513	138,304	59,163	456,980
Corporate acquisitions	-	-	-	82,573	82,573
Additions	-	-	-	10,803	10,803
Amortization	-	(123,526)	(123,350)	(41,231)	(288,107)
Impairment expense	-	(38,658)	-	(30,342)	(69,000)
December 31, 2022	-	97,329	14,954	80,966	193,249

As at December 31, 2022, the Company identified an impairment indicator related to its intangible assets, namely operating losses at the corporate and individual segment level. Upon performing an impairment analysis, it was determined that all intangible assets related to Yamchops need to be written down to a nil value. As such, an impairment expense of \$69,000 has been recorded for the year ended December 31, 2022. Assumptions used in the impairment analysis have been discussed in Note 9 below.

9. GOODWILL

The movement in the net carrying amount of goodwill is as follows:

Gross carrying amount	December 31, 2022	December 31, 2021
	\$	\$
Opening balance	16,191,955	-
Acquired through business combinations	-	16,191,955
Closing balance	16,191,955	16,191,955
Accumulated impairment		
Opening balance	(14,860,254)	-
Impairment loss recognized	(426,462)	(14,860,254)
Closing balance	(15,286,716)	(14,860,254)
Carrying amount at end of year	905,239	1,331,701

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Goodwill impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises as set out below, and is compared to its recoverable value:

	December 31 2022	December 31 2021
Goodwill allocated to operating segments		
	\$	\$
Holy Crap	905,239	905,239
Yamchops	-	426,462
	905,239	1,331,701

The recoverable amount of each segment was determined based on value-in-use calculations, covering a detailed five-year forecast, followed by an extrapolation of expected cash flows for the remaining useful lives. The present value of the expected cash flows of each segment was determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the segment.

Recoverable amount of each operating segment	2022	2021
	\$	\$
Holy Crap	1,442,155	1,384,000
Yamchops	-	763,000

	Growth rates		Discount rates	
	2022	2021	2022	2021
Holy Crap	2%-15%	2%-15%	15%	15%
Yamchops	2%-7%	2%-47%	15%	15%

Growth rates

The growth rate reflects management's expected revenue growth in the near term, with an estimated long-term growth rate of 2% which was selected based on consideration of Bank of Canada's long-term inflation target rate.

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each segment.

Cashflow assumptions

When calculating the discounted cash flow of each segment, management made the following assumptions:

- Holy Crap and Yamchops have been valued assuming they will continue to be operated as a going concern;
- There is a history of revenue, and future revenue is expected to grow from current levels;
- The CGUs historically have not generated material positive EBITDA, although management expects positive earnings in the future; and
- Management has applied revenue and cost of goods sold growth assumptions based on review of analyst expectations of these figures from comparable public companies engaged in food and beverage production and distribution (with a focus on natural, vegan, or plant-based foods).

Yamchops

The impairment calculation results in an impairment loss of \$426,462 (2021 - \$93,940) to the Yamchops segment and has been included in the loss for the year ended December 31, 2022, which represents the full goodwill balance of the segment.

The estimate of recoverable amounts for the Yamchops segment is particularly sensitive to the growth rates used. If the growth rates used are increased from 2% to 15%, there would be no goodwill impairment.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Holy Crap

The impairment calculation results in no impairment loss on the Holy Crap segment for the year ended December 31, 2022 (2021 - \$14,766,314).

The estimate of recoverable amounts for the Holy Crap segment is particularly sensitive to the discount rate. If the discount rate used is increased by 5%, an impairment loss of \$122,559 would be recognized.

10. LEASE LIABILITIES

In 2022, and in conjunction with the Lettuce Love and Heal Lifestyle acquisitions the Company acquired four new leases. The Lettuce Love retail space lease expires May 31, 2027. This lease was identified as a right-of-use asset with a corresponding lease liability, which was discounted using a 10% incremental borrowing rate (Note 4). The Heal Lifestyle retail space leases expire November 30, 2025, December 31, 2025 and March 31, 2034. These leases were identified as a right-of-use assets with corresponding lease liabilities, which were discounted using a 10% incremental borrowing rate (Note 4).

In 2021, as part of the Yamchops and Holy Crap acquisitions, the Company acquired two leases. The Yamchops retail space lease expires May 31, 2024. This lease was identified as a right-of-use asset with a corresponding lease liability, which was discounted using a 10% incremental borrowing rate (Note 4). The Holy Crap lease for its manufacturing facility expires on October 31, 2027. This lease was identified as a right-of-use asset with a corresponding lease liability, which was discounted using a 10% incremental borrowing rate (Note 4).

The changes in lease liabilities are as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Balance, beginning of year	247,406	50,048
Additions	603,693	293,787
Lease extensions	8,847	-
Lease payments	(155,822)	(124,055)
Interest expense	54,481	27,626
Balance, end of year	758,605	247,406
Current portion	164,022	59,873
Long-term portion	594,583	187,533
Lease liabilities	758,605	247,406

The following is a reconciliation from the undiscounted lease payments to the lease liabilities:

	\$
2023	233,964
2024	207,238
2025	186,405
2026	105,828
2027	75,437
2028	30,107
2029	31,011
2030	31,941
2031	32,899
2032	33,886
2033	34,903
2034	8,811
Total contractual cash flows	1,012,430
Less: interest	253,825
Lease liabilities	758,605

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The following table summarizes lease-related cashflows for the year ended:

	December 31, 2022	December 31, 2021
	\$	\$
Principal payments	101,340	96,429
Interest on lease liabilities	54,481	27,626
Total cash outflow for leases	155,821	124,055

On November 14, 2022, the Company sublet a portion of one of its retail spaces. The Company realized a gain on recognition of the sublease of \$22,946. The Company realized rental income of \$5,533 in 2022.

The following table summarizes interest in sublease transactions for the year ended:

	December 31, 2022	December 31, 2021
	\$	\$
Opening balance	-	-
Additions	87,764	-
Payments received	(5,532)	-
Finance income	1,436	-
Closing balance	83,668	-

11. LONG-TERM DEBT

Canada Emergency Business Account ("CEBA") Loan

Pursuant to IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance, the benefit of a government loan at below-market rate is treated as a government grant and measured in accordance with IFRS 9 - Financial Instruments: the benefit of below-market rate shall be measured as the difference between the initial carrying value of the loan (being the present value of a similar loan at market rates) and the proceeds received. The Company has estimated the initial carrying value of the CEBA loans using a discount rate of 20%. The difference was recognized as grant income and will be accreted to the loan liability over the term of the CEBA loan and offset to other income on the consolidated statements of loss and comprehensive loss.

In the first quarter of 2022, in response to the surge of COVID-19 cases, the Federal Government extended the deadline for repayment of the CEBA loans to qualify for partial loan forgiveness from December 31, 2022, to December 31, 2023, for eligible borrowers in good standing. The Company intends to take advantage of this extension. The Company recognized \$16,303 of grant income resulting from this change in the loan repayment schedule.

The changes in the Company's CEBA loans are as follows:

	\$
Balance at December 31, 2020	20,175
Loans acquired	48,641
New loan recognized	6,854
Accretion	14,944
Balance at December 31, 2021	90,614
Extension of repayment period	(16,303)
Loans acquired	28,792
Accretion	20,318
Balance at December 31, 2022	123,421

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Lettuce Love loans

On October 8, 2022, as part of the Lettuce Love acquisition the Company assumed \$172,287 of debt related to two BDC loans. The first BDC loan matures November 15, 2024, and bears interest of BDC prime plus 0.3%. The second BDC loan matures September 15, 2026, and bears interest of BDC prime plus 0.97%. The loans are repayable monthly and are secured through a personal guarantee of the CEO of the Company.

Heal Lifestyle loans

On May 5, 2022, as part of the Heal Lifestyle acquisition the Company assumed \$123,270 of debt related to a Canada Small Business Financing Act Loan with TD Canada Trust. The loan bears interest at TD prime plus 3%, repayable in monthly installments with a term end date of April 1, 2031.

The Company had the following outstanding long-term debt:

	Maturity	Rate	December 31, 2022	December 31, 2021
CEBA loans	31-Dec-23	0%	123,421	90,614
TD loan	01-Apr-31	TD Prime + 3.00%	116,012	-
BDC loan 1	15-Nov-24	BDC Prime + 0.30%	95,680	-
BDC loan 2	15-Sep-26	BDC Prime + 0.97%	59,375	-
			394,488	90,614
Current			198,487	-
Long-term			196,001	90,614

Principal payments for years ended December 31 are as follows:

	\$
2023	198,487
2024	71,891
2025	27,206
2026	24,402
2027	13,797
2028	15,181
2029	16,736
2030	18,434
2031	8,354
Total payments	394,488

Convertible debentures

The Company has closed two tranches of its non-brokered private placement (the "Private Placement") of unsecured convertible debentures (the "Debentures") for gross proceeds of \$2,000,000. The Debentures have a term of 24 months, and pay interest at a rate of twelve percent (12%) per annum payable quarterly after the closing date of June 30, 2022 for the first tranche of \$1,295,000 and July 8, 2022 for the second tranche of \$705,000 (the "Closing Date"), maturing on the date that is the second anniversary of the first date that the Debentures are issued (the "Maturity Date"). The Debentures are convertible at the holder's option into common shares of the Company every three months after the Closing Date, but prior to the Maturity Date, into common shares at a conversion price equal to (a) \$0.20 per common share if converted in the first 12 months after the Closing Date; or (b) \$0.25 per common share if converted after the first 12 months after the Closing Date, provided that not less than 25% of the outstanding principal, and any interest amounts owed, is converted (the "Conversion Price").

On the Maturity Date, any outstanding principal amount of the Debentures, plus any accrued and unpaid interest, shall be paid in cash. All securities issued in connection with the closing of the Private Placement are subject to a four-month and one-day statutory hold period in accordance with applicable securities laws. In connection with the closing of the second tranche of the Private Placement, the Company paid \$52,950 as a finder's fee.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

The changes in the convertible debentures are as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Balance, beginning of the year	-	-
Initial proceeds from debt	2,000,000	-
Debt issue costs paid in cash	(52,950)	-
Transfer of conversion component to equity	(265,797)	-
Amortization of deferred financing costs	13,238	-
Accretion on convertible debentures	56,228	-
Balance, end of the year	1,750,719	-

Convertible debentures bifurcated into equity and debt components:

	Maturity	December 31, 2022	December 31, 2021
		\$	\$
Debt component	June 30, 2024	1,750,719	-
Equity component	June 30, 2024	265,797	-

12. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value.

Issued:

As at December 31, 2022, the Company has 107,207,198 shares issued and outstanding (December 31, 2021 – 104,157,421).

On January 18, 2021, the Company issued 344,828 common shares, valued at \$244,665, as part of the Yamchops acquisition (Note 4).

On January 18, 2021, the Company issued 109,589 common shares, valued at \$85,479, to a finder in connection with the Yamchops transaction (Note 4).

On February 12, 2021, the Company issued 29,300,000 common shares, valued at \$14,813,981, pursuant to an amalgamation agreement dated November 25, 2020 among the Company, Plant & Company Brands Group Inc., a wholly-owned subsidiary of the Company, and Holy Crap (Note 4).

During the year ended December 31, 2021, the Company issued 1,577,000 common shares pursuant to option exercises for total proceeds of \$323,250.

During the year ended December 31, 2021, the Company issued 2,212,590 common shares pursuant to warrant exercises for total proceeds of \$568,147.

During the year ended December 31, 2021, the Company cancelled 200,000 common shares, valued at \$100,000.

On June 18, 2021, the Company closed a non-brokered private placement for total gross proceeds of \$600,000. The Company issued 3,000,000 units at a price of \$0.20 per unit. Each unit consisted of one common share of the Company and one common share purchase warrant entitling the holder to purchase one common share within three years of the closing date at a price of \$0.20 per common share.

On May 5, 2022, the Company issued 2,777,777 shares, valued at \$222,222, as part of the Heal Lifestyle acquisition (Note 4).

During the year ended December 31, 2022, the Company issued 272,000 common shares pursuant to warrant exercises for total proceeds of \$68,000.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

b) Share Purchase Warrants

A continuity of the share purchase warrants is summarized as follows:

	December 31, 2022		December 31, 2021	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Warrants outstanding, beginning of year	54,832,660	0.25	27,232,150	0.35
Issued February 12, 2021	-	-	4,000,000	0.40
Issued June 18, 2021	-	-	3,000,000	0.20
Issued June 18, 2021	-	-	27,000,000	0.20
Exercised	(272,000)	0.25	(2,212,590)	0.26
Expired/forfeited	(24,360,660)	0.30	(4,186,900)	0.75
Warrants outstanding, end of year	30,200,000	0.20	54,832,660	0.25

The Company's weighted average share price for the year ended December 31, 2022 was \$0.12 (2021 - \$0.36).

On June 1, 2021, the Company entered into a strategic advisory agreement (the "Advisory Agreement") with Maricom Inc. and 2085086 Ontario Inc. (the "Advisors") represented by Sean Black, Mark Rechichi and Alex Rechichi to assist with the private placement and to arrange for Alex Rechichi, Mark Rechichi and Kevin Cole to join the Board of Directors of the Company. In consideration for the assistance with the private placement and the arrangement of strategic appointments to the Board (the "Strategic Board Appointments"), the Company agreed to issue an aggregate of 27,000,000 non-transferrable share purchase warrants ("Advisory Warrants") to the Advisors. Each Advisory Warrant entitles the holder to acquire one share at a price of \$0.20 for a period of five years from their date of issue and vest upon the occurrence of the vesting triggers noted below:

Number of advisory warrants vested	Vesting trigger
5,200,000	Closing of the June 2021 private placement
2,700,000	\$0.50 ⁽¹⁾
2,750,000	\$0.75 ⁽¹⁾
5,400,000	\$1.00 ⁽¹⁾
5,450,000	\$1.50 ⁽¹⁾
5,500,000	\$2.00 ⁽¹⁾

Note: (1) Closing price of the common shares on the Canadian Securities Exchange (or any other stock exchange that the Common Shares may trade) required to trigger vesting of Advisory Warrants.

The Company recognized \$3,174,062 in share-based compensation on the issuance of the Advisory Warrants. The warrants were valued using the Black-Scholes Option Pricing Model with the following inputs: expected price volatility of 179%, risk free interest rates of 0.97%, expected life of 5 years and no dividend yield. A Monte Carlo probability model was applied to the various vesting trigger points resulting in probabilities of between 13% and 56% which were applied to the five unvested tranches.

As at December 31, 2022, the Company had outstanding warrants as follows:

Expiry date	Exercise Price \$	Remaining life (years)	Warrants outstanding	Warrants exercisable
March 11, 2023	0.75	0.19	200,000	200,000
June 18, 2024	0.20	1.47	3,000,000	3,000,000
June 18, 2026	0.20	3.49	27,000,000	5,200,000
	0.20		30,200,000	8,400,000

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

c) Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, and consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares.

A summary of the Company's stock option transactions is presented below:

	December 31, 2022		December 31, 2021	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Options outstanding, beginning of year	9,870,000	0.27	4,670,091	0.33
Granted	185,000	0.38	12,145,000	0.36
Exercised	-	-	(1,577,000)	0.34
Expired	(2,420,000)	0.26	(20,000)	0.50
Cancelled/ forfeited	(50,000)	0.50	(5,348,091)	0.51
Options outstanding, end of year	7,585,000	0.28	9,870,000	0.27

The share options outstanding as at December 31, 2022 are as follows:

Grant date	Number of options outstanding	Exercise price \$	Expiry date
January 5, 2021*	350,000	0.45	January 5, 2023
January 19, 2021*	200,000	0.78	January 19, 2023
April 30, 2021	5,625,000	0.25	April 30, 2023
May 10, 2021	1,275,000	0.26	May 10, 2023
April 1, 2022	75,000	0.40	April 1, 2023
April 1, 2022	60,000	0.25	April 1, 2024
	7,585,000	0.28	

*Subsequent to year-end, 550,000 outstanding options expired in January 2023.

The Company recognized \$5,110 (2021 - \$3,366,241) in share-based compensation on options during the year ended December 31, 2022.

The fair value of options was estimated using the Black-Scholes Option Pricing Model based on the date of grant and using the following assumptions:

Grant date	Risk-free interest rate	Expected stock price volatility	Expected life	Fair value option price \$
January 5, 2021	0.19%	178%	2	0.36
January 19, 2021	0.15%	180%	2	0.74
April 30, 2021	0.30%	183%	2	0.17
May 10, 2021	0.29%	184%	2	0.18
July 21, 2021	0.39%	163%	1	0.36
April 1, 2022	2.24%	83%	1	0.00
April 1, 2022	2.24%	83%	1	0.01
April 1, 2022	2.34%	155%	2	0.07

All option grants have an expected dividend yield of 0% and a forfeiture rate of 0%.

d) Share-based payment reserve

The share-based payment reserve records items recognized as share-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS

The Company incurred the following transactions with companies that are controlled by directors and related parties of the Company:

	Year ended December 31, 2022	Year ended December 31, 2021
	\$	\$
Consulting and other fees	426,548	546,742
Share-based compensation (Note 12)	-	5,005,609
	426,548	5,552,351

As at December 31, 2022, the Company had a \$13,059 balance payable to the CEO of the Company, and \$200,000 of the convertible debentures are payable to individuals related to the CEO of the Company.

The CEO of the Company exercised 272,000 of warrants for net proceeds to the Company of \$68,000.

As at December 31, 2021, the Company had no outstanding payables or receivables with its related parties.

14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2022, the Company had total accounts payable of \$362,080 (2021 - \$171,289), and accrued liabilities of \$152,542 (2021 - \$75,000).

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial instruments

The carrying values of cash, accounts receivable, other receivables, accounts payable and accrued liabilities, and other liabilities approximate their carrying values due to the immediate or short-term nature of these instruments.

IFRS 13 - Fair Value Measurement, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Equity investments where the shares are publicly traded are revalued using level 1 inputs. Non-publicly traded shares and warrants are measured using level 3 inputs.

Financial risk management

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

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The maximum credit risk that the Company is exposed to is the carrying value of the cash, accounts receivable and other receivables. Credit risk exposure to cash is minimized substantially by ensuring that cash is held with credible financial institutions. The Company mitigates the credit risk associated with accounts receivable by establishing relationships with creditworthy purchasers. Other receivables mostly relate to amounts receivable from long-term investors in the Company; the Company mitigates the credit risk by only establishing relationships with creditworthy investors.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and business development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cashflow in the upcoming year will be through equity financing and revenue generation. Cash on hand at December 31, 2022 and expected cashflows for the next 12 months are sufficient to fund the Company's ongoing operational needs. The Company may need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof. Liquidity risk is assessed as high.

Based on the contractual obligations of the Company as at December 31, 2022, cash outflows of those obligations are estimated and summarized as follows:

Payment due by year	2023	2024	2025 and beyond	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	514,622	-	-	514,622
CEBA loan	150,000	-	-	150,000
Other long-term debt*	75,066	71,891	124,110	271,067
Lease liabilities	233,964	207,238	571,228	1,012,430
	973,652	279,129	695,338	1,948,119

*These amounts do not include interest payable.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

(a) Interest rate risk

Interest rate risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest risk as its TD and BDC loans have a variable interest rate. The Company does not believe the exposure to interest rate risk is significant. When assessing interest rate risk the Company believes 1% volatility is a reasonable measure. The effect of a 1% change in interest rates would have had a \$1,013 impact on the Company's net earnings for the year ended December 31, 2022 (2021 – \$Nil).

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency. Foreign currency risk is assessed as low as the Company has no material expenses denominated in foreign currencies.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity. There were no changes in the Company's approach to capital management during the period. The Company is not subject to any externally imposed capital requirements.

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

16. GENERAL AND ADMINISTRATIVE EXPENSES

The following table provides a breakdown of general and administrative expense:

	Year Ended December 31,	
	2022	2021
	\$	\$
Legal and accounting	352,708	355,491
Advertising and marketing	291,914	244,202
Investor relations	3,086	1,851,295
Consulting	213,604	450,396
Management	394,109	497,212
Office and sundry	294,448	181,369
Business development	160,881	435,227
Salaries and wages	842,703	413,939
Total general and administrative	2,553,453	4,429,131

17. SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital are summarized below:

	Year Ended December 31,	
	2022	2021
	\$	\$
Accounts receivable	22,135	16,731
Other receivables	(208,451)	-
Inventory	(75,046)	(35,289)
Prepaid expenses	3,741	442,240
HST recoverable/payable	88,635	56,786
Accounts payable and accrued liabilities	114,440	(441,248)
Other liabilities	(3,490)	(17,972)
Deferred revenue	-	(104,745)
Net change in non-cash working capital related to operations	(58,036)	(83,497)

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

18. SEGMENTED INFORMATION

As at	December 31, 2022			
	Consumer product goods	Quick restaurant services	Corporate	Consolidated
	\$	\$	\$	\$
Current assets	291,533	139,684	1,418,032	1,849,249
Property and equipment	200,547	1,033,570	17,317	1,251,434
Intangible assets	112,283	80,966	-	193,249
Interest in sublease	-	83,668	-	83,668
Goodwill	905,239	-	-	905,239
Total assets	1,509,602	1,337,888	1,435,349	4,282,839
Current liabilities	105,198	416,759	432,874	954,831
Long-term liabilities	107,642	682,942	1,750,719	2,541,303
Total liabilities	212,840	1,099,701	2,183,593	3,496,134

As at	December 31, 2021			
	Consumer product goods	Quick restaurant services	Corporate	Consolidated
	\$	\$	\$	\$
Current assets	227,328	49,973	1,050,882	1,328,183
Property and equipment	170,426	351,672	28,656	550,754
Intangible assets	322,438	134,542	-	456,980
Goodwill	905,239	426,462	-	1,331,701
Total assets	1,625,431	962,649	1,079,538	3,667,618
Current liabilities	70,889	79,206	164,467	314,562
Long-term liabilities	152,152	101,394	24,601	278,147
Total liabilities	223,041	180,600	189,068	592,709

Year ended	December 31, 2022			
	Consumer product goods	Quick restaurant services	Corporate	Consolidated
	\$	\$	\$	\$
Revenue	1,047,341	1,687,155	-	2,734,496
Cost of goods sold	683,586	844,399	-	1,527,985
General and administrative	471,653	960,778	1,121,022	2,553,453
Impairment, interest, depreciation, and amortization	272,580	838,795	188,393	1,299,768
Other (income)/expense	(13,717)	(53,822)	163,781	96,242
Net loss	(366,761)	(902,995)	(1,473,196)	(2,742,952)

Year ended	December 31, 2021			
	Consumer product goods	Quick restaurant services	Corporate	Consolidated
	\$	\$	\$	\$
Revenue	658,508	544,580	46,265	1,249,353
Cost of goods sold	364,797	231,725	-	596,522
General and administrative	362,206	509,771	3,557,154	4,429,131
Impairment, interest, depreciation, and amortization	14,766,314	93,940	355,799	15,216,053
Other (income)/expense	280,761	18,320	7,285,939	7,585,020
Net loss	(15,115,570)	(309,176)	(11,152,627)	(26,577,373)

HAPPY BELLY FOOD GROUP INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)

19. INCOME TAX

A reconciliation of income tax expense (recovery) at statutory rates with the reported income taxes (recovered) is as follows:

	2022	2021
	\$	\$
Income/(loss) before income taxes	(2,742,952)	(26,577,373)
Combined statutory tax rate	27.00%	27.00%
Expected tax/(recovery) at statutory rate	(740,597)	(7,175,891)
Non-deductible items and other	7,493	5,557,381
Change in unrecognized deferred tax asset	733,104	1,618,510
	-	-

The components of the net deferred tax asset (liability) at December 31 are as follows:

	2022	2021
	\$	\$
Non-capital losses	4,986,646	4,268,615
Share issuance costs	56,180	84,270
Equipment	(249,989)	(102,855)
Other items	58,262	(18,689)
Total deferred tax asset	4,851,099	4,231,341
Unrecognized deferred tax asset	(4,851,099)	(4,231,341)
Deferred taxes	-	-

Estimated unrecognized deductible temporary (taxable) differences (tax pools) at December 31, are as follows:

	2022	2021
	\$	\$
Non-capital losses	18,469,058	15,809,685
Share issuance costs	208,073	311,740
Equipment	325,551	169,808
Other items	409,033	387,760
	19,411,715	16,678,993

As at December 31, 2022, the Company had accumulated Canadian non-capital losses of approximately \$18.5 million expiring between 2035 and 2042.

20. SUBSEQUENT EVENT

On March 30, 2023, the Company closed on a non-brokered private placement of unsecured convertible debentures (the "Convertible Debentures") for gross proceeds of \$1,000,000. The Convertible Debentures have a term of 5 years and pay interest at a rate of twelve percent (12%) per annum payable quarterly and are convertible at the holder's option into common shares of the Company every three months, prior to March 30, 2028, into common shares at a conversion price equal to \$0.30 per common share.

On March 30, 2028, any outstanding principal amount of the Convertible Debentures, plus any accrued and unpaid interest, shall be paid in cash. All securities issued in connection with this private placement are subject to a four-month hold period in accordance with applicable securities laws.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.