

VEGANO FOODS INC.

Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2022 and 2021

(Stated in Canadian dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Vegano Foods Inc. (the "Company") have been prepared by management in accordance with International Financing Reporting Standards ("IFRS"). These condensed consolidated interim financial statements, which are the responsibility of management, are unaudited and have not been reviewed by the Company's auditors. The Company's Audit Committee and Board of Directors have reviewed and approved these condensed consolidated interim financial statements. In accordance with the disclosure requirements of National Instrument 51-102 released by the Canadian Securities Administrators, the Company's independent auditors have not performed a review of these condensed consolidated interim financial statements.

VEGANO FOODS INC.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Stated in Canadian dollars)

(Unaudited)

As at	Notes		June 30, 2022		December 31, 2021
ASSETS					
Current assets					
Cash and cash equivalents	5	\$	73,035	\$	1,439,582
Other receivables	6		159,318		84,650
Prepaid expenses	7		287,528		20,229
Inventory	8		71,107		73,604
Total current assets			590,988		1,618,065
Investment	9		1		1
Equipment	10		46,462		58,233
Intangible assets	11		2,974,526		-
Total assets		\$	3,611,977	\$	1,676,299
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and other liabilities	12,19,23	\$	291,058	\$	311,567
Gift card liability	13		33,979		33,687
Deferred revenue	13		332		19,606
Loans payable	15		6,171		31,171
Total liabilities			331,540		396,031
Shareholders' equity					
Share capital	16		8,416,715		5,957,617
Obligation to issue shares	16		9,294		-
Reserves	16,17,18		1,550,320		442,703
Deficit			(6,695,892)		(5,120,052)
Total shareholders' equity			3,280,437		1,280,268
Total liabilities and shareholders' equity		\$	3,611,977	\$	1,676,299
Nature of operations and going concern	1				
Commitments	23				

Approved and authorized by the Board of Directors on August 29, 2022:

"Conor Power"

Director

"Joel Primus"

Director

VEGANO FOODS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Stated in Canadian dollars)

(Unaudited)

		Three months ended			Six months ended		
	Notes	2022	June 30 2021	2022	June 30 2021		
Revenue	13	\$ 43,645	\$ 51,321	\$ 187,255	\$ 101,395		
Cost of goods sold	20	42,995	88,382	315,154	145,849		
Gross profit (loss)		650	(37,061)	(127,899)	(44,454)		
Operating expenses							
Advertising and promotion		31,574	40,086	135,668	177,309		
Amortization of intangible assets	11	27,415	19,366	27,415	38,732		
Consulting fees	19	220,009	76,290	413,842	172,118		
Depreciation of equipment	10	3,792	3,639	10,104	6,837		
General and administrative	21	49,319	156,199	173,197	261,316		
Professional fees	19	78,204	34,564	236,919	144,307		
Salaries and benefits	19	34,601	258,761	173,694	444,170		
Share-based compensation	17,19	41,525	34,497	190,923	102,499		
Travel expenses		13,971	48,169	57,443	160,476		
		500,410	671,571	1,419,205	1,507,764		
Other expenses							
Accretion expense	14	-	2,403	-	8,581		
Foreign exchange loss		454	39	1,522	1,123		
Loss on disposal of equipment	10	27,668	-	28,714	-		
Finance costs	14	-	4,794	-	17,122		
Gain on debt settlement	16	(1,500)	-	(1,500)	-		
Net loss and comprehensive loss		\$ (526,382)	\$ (715,868)	\$ (1,575,840)	\$ (1,579,044)		
Weighted average number of common shares outstanding – basic and diluted		60,718,716	53,924,951	58,461,666	49,724,810		
Basic and diluted loss per common share		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)		

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

VEGANO FOODS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY
(Stated in Canadian dollars)
(Unaudited)

	Number of shares	Share capital	Obligation to issue shares	Reserves	Deficit	Total shareholders' equity
Balance, January 1, 2021	35,795,711	\$ 1,232,110	\$ 1,644,810	\$ 19,919	\$ (1,152,181)	\$ 1,744,658
Shares issued under private placement, net of issuance costs	20,363,215	4,750,752	(1,644,810)	-	-	3,105,942
Share-based compensation	-	-	-	102,499	-	102,499
Warrants issued to agents	-	(25,245)	-	25,245	-	-
Net loss	-	-	-	-	(1,579,044)	(1,579,044)
Balance, June 30, 2021	56,158,926	\$ 5,957,617	\$ -	\$ 147,663	\$ (2,731,225)	\$ 3,374,055
Balance, January 1, 2022	56,158,926	\$ 5,957,617	\$ -	\$ 442,703	\$ (5,120,052)	\$ 1,280,268
Shares repurchased and returned to treasury	(130,000)	(32,500)	-	-	-	(32,500)
Shares issued for services	1,379,616	105,000	-	-	-	105,000
Shares issued for debt settlement	937,256	93,353	-	-	-	93,353
Acquisition of SMPL Oats Ltd.	28,678,680	2,294,295	9,294	916,694	-	3,220,283
Share issuance costs	-	(1,050)	-	-	-	(1,050)
Share-based compensation	-	-	-	190,923	-	190,923
Net loss	-	-	-	-	(1,575,840)	(1,575,840)
Balance, June 30, 2022	87,024,478	\$ 8,416,715	\$ 9,294	\$ 1,550,320	\$ (6,695,892)	\$ 3,280,437

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

VEGANO FOODS INC.**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Stated in Canadian dollars)

(Unaudited)

	Six months ended June 30, 2022	Six months ended June 30, 2021
Operating activities		
Net loss	\$ (1,575,840)	\$ (1,579,044)
Items not affecting cash:		
Accretion expense on convertible note	-	8,581
Amortization of intangible assets	27,415	38,732
Depreciation of equipment	10,104	6,837
Finance costs	-	17,122
Share-based compensation	190,923	102,499
Shares issued for services	94,500	-
Loss on disposal of equipment	28,714	-
Gain on debt settlement	(1,500)	-
Non-cash working capital items:		
Other receivables	(39,688)	3,865
Prepaid expenses	37,864	(71,083)
Inventory	2,497	(21,615)
Accounts payable and other liabilities	(80,982)	5,419
Gift card liability	292	40
Deferred revenue	(19,274)	(5,211)
Net cash used in operating activities	(1,324,975)	(1,493,858)
Investing activities		
Purchase of equipment	(68,547)	(21,744)
Proceeds from sale of equipment	41,500	-
Acquisition of investment	-	(250,000)
Cash assumed on acquisition of SMPL Oats Ltd.	44,025	-
Net cash provided by (used in) investing activities	16,978	(271,744)
Financing activities		
Proceeds from issuance of shares	-	3,239,894
Repayment of loans payable	(25,000)	-
Repurchase of shares	(32,500)	-
Share issuance costs	(1,050)	(133,952)
Repayment of convertible note	-	(540,959)
Proceeds from loans payable	-	5,981
Net cash provided by (used in) financing activities	(58,550)	2,570,964
Change in cash and cash equivalents	(1,366,547)	805,362
Cash and cash equivalents, beginning	1,439,582	2,275,929
Cash and cash equivalents, ending	\$ 73,035	\$ 3,081,291
Supplementary cash flow information		
Interest paid	\$ -	\$ 40,959
Income taxes paid	\$ -	\$ -
Shares issued for debt settlement	\$ 93,353	\$ -
Shares issued for services	\$ 94,500	\$ -
Shares issued for services and included in prepaid expenses	\$ 10,500	\$ -
Warrants issued to agents	\$ -	\$ 25,245

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

VEGANO FOODS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

Vegano Foods Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) (“BCBCA”) on March 19, 2020. The Company’s principal activities relate to the sale and delivery of vegan meals and grocery and household staples to end customers on the Vegano Marketplace. The registered office of the Company is 1500 West Georgia Street, Suite 1300, Vancouver BC V6G 2Z6, Canada. The Company’s common shares began trading on the Canadian Securities Exchange (the “CSE”) under the trading symbol “VAGN” on February 15, 2022.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and settle its obligations in the normal course of business. As at June 30, 2022, the Company has not generated profits or positive cash flows from operations. These conditions cast significant doubt about the Company’s ability to continue as a going concern. The Company is dependent on its ability to develop profitable operations and to continue to raise adequate financing from external sources to carry out its business objectives. The Company will require additional financing for continuing operations, to evaluate strategic opportunities, and for working capital purposes. These condensed consolidated interim financial statements do not give effect to the adjustments in the carrying value of assets and liabilities, and in the classifications used in the statements of financial position that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

2. BASIS OF PREPARATION

Statement of compliance

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

The notes presented in these condensed consolidated interim financial statements include only significant events and transactions occurring since the Company’s last fiscal period end and they do not include all the information required in the Company’s most recent annual financial statements. Except as noted below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the Company’s annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2021, which were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. There have been no significant changes in judgements or estimates from those disclosed in the financial statements for the year ended December 31, 2021, except as noted below.

The unaudited condensed consolidated interim financial statements were approved and authorized for issuance on August 29, 2022 by the Board of Directors.

Basis of measurement

These condensed consolidated interim financial statements are expressed in Canadian dollars, which is the functional currency of the Company and its subsidiary. These unaudited condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs except for certain financial instruments which are measured at fair value.

VEGANO FOODS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

2. BASIS OF PRESENTATION (CONTINUED)

Basis of consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiary, 1355441 B.C. Ltd. 1355441 B.C. Ltd. was incorporated under the Business Corporations Act of British Columbia on March 28, 2022 and subsequently amalgamated with SMPL Oats Ltd. on June 20, 2022 (Note 4). Effective June 20, 2022, the Company has one wholly-owned subsidiary, SMPL Oats Ltd.

All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an entity, when the Company is exposed, or has rights, to variable returns from the entity and when the Company has the ability to affect those returns through its power over the entity. Subsidiaries are included in the financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control.

Comparative figures

Certain comparative figures have been reclassified to conform with the basis of presentation applied for the six months ended June 30, 2022.

Use of accounting estimates and significant management judgements

The preparation of the condensed consolidated financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from these estimates, and as such, the estimates and underlying assumptions are reviewed on an ongoing basis. Key estimates made by management with respect to the areas noted have been disclosed in the notes to these condensed consolidated interim financial statements as appropriate. The accounting estimates and significant management judgements applied in the preparation of the Company's condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2021, except as noted below.

Fair value measurement of intangible assets

The Company acquired intangible assets, including intellectual property, brand, design, proprietary expertise, recipes, formulations, and trade secrets in connection with an amalgamation transaction (Note 4). Carrying amounts for intangible assets do not necessarily reflect present or future value and the ultimate amounts recoverable will be dependent upon the successful commercialization of products based on these underlying intangible assets.

Business combinations

From time to time, the Company may acquire subsidiaries. At the time of acquisition, the Company considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Company accounts for an acquisition as a business combination where an integrated set of activities and assets, is acquired. More specifically, consideration is given to the extent to which significant processes are acquired.

When the acquisition of subsidiaries does not represent a business combination, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized.

VEGANO FOODS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2021.

4. ACQUISITION OF SMPL OATS LTD.

On April 3, 2022, the Company, its wholly-owned subsidiary, 1355441 BC Ltd. ("Subco"), and SMPL Oats Ltd. ("SMPL") entered into an amalgamation agreement (the "Amalgamation Agreement") for the purpose of amalgamating SMPL and Subco (the "Amalgamation").

On June 20, 2022 (the "Closing Date"), pursuant to the Amalgamation Agreement:

- The Company issued 28,678,680 common shares in exchange for 32,092,949 common shares of SMPL being all of the issued and outstanding shares of SMPL immediately prior to the Amalgamation. The common shares were valued at \$2,294,295 or \$0.08 per common share which was the closing price per common share of the Company on the Closing Date (Note 16).
- The Company issued 19,599,576 warrants in exchange for 21,932,949 warrants of SMPL being all of the outstanding warrants of SMPL immediately prior to the Amalgamation. Each warrant issued by the Company is exercisable for one common share of the Company at an exercise price of \$0.06 to \$0.11 and expires on June 20, 2024. The fair value of the warrants of \$916,694 was determined using the Black-Scholes Option Pricing Model and the following assumptions: share price of \$0.08, risk-free interest rate of 3.26%, expected life of 2 years, annualized volatility of 109.5%, and dividend yield of 0% (Note 18).
- The Company issued 116,169 special warrants in exchange for 130,000 special warrants of SMPL being all of the outstanding special warrants of SMPL immediately prior to the Amalgamation. Each special warrant issued by the Company is exercisable for no additional consideration into one unit of the Company with each unit consisting of one common share and one warrant of the Company. Each warrant is exercisable for one common share of the Company at an exercise price of \$0.11 for a period of 24 months. The special warrants were valued at \$9,294 or \$0.08 per special warrant which was the closing price per common share of the Company on the Closing Date (Note 16).
- SMPL and Subco were amalgamated and the resulting entity, SMPL Oats Ltd., became a wholly-owned subsidiary of the Company.

VEGANO FOODS INC.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

4. ACQUISITION OF SMPL OATS LTD. (CONTINUED)

The Amalgamation was determined to be an asset acquisition as no substantive processes were transferred to the Company.

Consideration paid:	
Value of equity instruments	\$ 3,220,283
Transaction costs	86,654
	\$ 3,306,937
Net identifiable assets acquired:	
Cash and cash equivalents	\$ 44,025
Other receivables	34,980
Prepaid expenses	294,663
Intangible assets	3,001,941
Accounts payable and accrued liabilities	(68,672)
	\$ 3,306,937

5. CASH AND CASH EQUIVALENTS

	June 30, 2022	December 31, 2021
Deposit at bank	\$ 63,035	\$ 1,419,582
Guaranteed Investment Certificate ("GIC")	10,000	20,000
Total cash and cash equivalents	\$ 73,035	\$ 1,439,582

Included in the net identifiable assets acquired in connection with the Amalgamation (Note 4) was a \$10,000, one-year cashable GIC. The GIC earns interest at a rate of 0.35% per annum and matured on July 9, 2022.

As at December 31, 2021, the Company held a \$20,000 one-year cashable GIC which earned interest at a rate of 0.25% per annum. This GIC was redeemed during the six months ended June 30, 2022.

6. OTHER RECEIVABLES

	June 30, 2022	December 31, 2021
Subscription proceeds receivable (Note 16)	\$ 650	\$ 650
Advances to related parties (Note 19)	40,203	-
Sales tax receivable	118,430	67,027
Interest receivable	35	-
Government assistance receivable	-	16,973
Total other receivables	\$ 159,318	\$ 84,650

7. PREPAID EXPENSES

	June 30, 2022	December 31, 2021
Prepaid insurance	\$ 639	\$ 2,795
Retainers and prepayments for services (Notes 16 and 19)	285,306	6,299
Security deposits	-	8,196
Prepaid membership	1,583	2,939
Total prepaid expenses	\$ 287,528	\$ 20,229

VEGANO FOODS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

(Stated in Canadian dollars)

(Unaudited)

8. INVENTORY

	June 30, 2022	December 31, 2021
Packaging materials	\$ 145	\$ 15,504
Grocery staples	70,962	51,051
Meal Kits	-	7,049
Total Inventory	\$ 71,107	\$ 73,604

9. INVESTMENT

During the year ended December 31, 2021, the Company entered into subscription agreements with Superbolt Tea Inc. ("Superbolt"), a privately-owned online tea retailer. The Company paid \$350,000 in exchange for 2,500,000 Class A voting common shares and 500,000 Class B non-voting shares of Superbolt. Management has assessed that the Company has no control, nor significant influence over Superbolt as the Company holds approximately 11% of the voting rights and has no participation in Superbolt's policy-making processes. The Company accounts for its investment in Superbolt as a long-term investment measured at fair value through profit and loss.

On initial recognition, the fair value of the shares of Superbolt was determined to be equal to the transaction price of \$350,000.

During the year ended December 31, 2021, the Company recorded a loss on investment of \$349,999 from the change on the fair value of investment.

As at June 30, 2022 and December 31, 2021, the fair value of the investment was \$1.

10. EQUIPMENT

	Kitchen equipment	Computer equipment	Vehicle	Total
Cost				
Balance, December 31, 2020	\$ 55,861	\$ -	\$ -	\$ 55,861
Additions	-	33,254	24,870	58,124
Balance, December 31, 2021	55,861	33,254	24,870	113,985
Additions	-	-	68,547	68,547
Disposals	(5,000)	(1,307)	(68,547)	(74,854)
Balance, June 30, 2022	\$ 50,861	\$ 31,947	\$ 24,870	\$ 107,678
Accumulated Depreciation and Impairment				
Balance, December 31, 2020	\$ 4,309	\$ -	\$ -	\$ 4,309
Depreciation	11,172	4,061	830	16,063
Impairment	35,380	-	-	35,380
Balance, December 31, 2021	50,861	4,061	830	55,752
Depreciation	-	3,238	6,866	10,104
Disposals	-	(261)	(4,379)	(4,640)
Balance, June 30, 2022	\$ 50,861	\$ 7,038	\$ 3,317	\$ 61,216
Net book value				
At December 31, 2021	\$ 5,000	\$ 29,193	\$ 24,040	\$ 58,233
At June 30, 2022	\$ -	\$ 24,909	\$ 21,553	\$ 46,462

VEGANO FOODS INC.**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022**

(Stated in Canadian dollars)

(Unaudited)

10. EQUIPMENT (CONTINUED)

During the six months ended June 30, 2022, the Company sold kitchen equipment with a net book value of \$5,000 for proceeds of \$5,000.

During the six months ended June 30, 2022, the Company disposed of computer equipment with a net book value of \$1,046 due to damage and recorded a loss on disposal of \$1,046.

During the six months ended June 30, 2022, the Company sold a vehicle with a net book value of \$64,168 for proceeds of \$36,500 and recorded a loss on disposal of \$27,668.

11. INTANGIBLE ASSETS

	Website		Brand		Total
Cost					
Balance, December 31, 2020	\$	154,927	\$	-	\$ 154,927
Additions		-		-	-
Balance, December 31, 2021		154,927		-	154,927
Additions		-		3,001,941	3,001,941
Balance, June 30, 2022	\$	154,927	\$	3,001,941	\$ 3,156,868
Accumulated Depreciation and Impairment					
Balance, December 31, 2020	\$	6,455	\$	-	\$ 6,455
Amortization		77,464		-	77,464
Impairment		71,008		-	71,008
Balance, December 31, 2021		154,927		-	154,927
Amortization		-		27,415	27,415
Balance, June 30, 2022	\$	154,927	\$	27,415	\$ 182,342
Net book value					
Balance, December 31, 2021	\$	-	\$	-	\$ -
Balance, June 30, 2022	\$	-	\$	2,974,526	\$ 2,974,526

All of the costs incurred for the website were considered to be internally generated intangible assets and were capitalized. During the year ended December 31, 2021, the Company assessed that the intangible asset was impaired and wrote off the remaining carrying value of \$71,008.

During the six months ended June 30, 2022, the Company acquired the intangible assets of SMPL consisting of intellectual property, brand, design, proprietary expertise, recipes, formulations, and trade secrets in connection with the Amalgamation (Note 4).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

		June 30, 2022		December 31, 2021
Accounts payable	\$	235,507	\$	106,646
Accrued liabilities		8,700		115,260
Payroll liabilities		46,645		89,480
Sales tax payable		206		181
	\$	291,058	\$	311,567

VEGANO FOODS INC.NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

13. REVENUE

The Company generates revenue from the sale and delivery of vegan meal kits, prepared meals and grocery staples to its customers. Revenue is generated in one primary geographical market, being Canada, and is recognized upon delivery of purchase orders to customers.

Revenue recognized by the Company is summarized in the table below.

	Three months ended June		Six months ended June	
	2022	2021	2022	2021
Meal kits and prepared meals	\$ 32,791	\$ 51,321	\$ 139,962	\$ 101,395
Grocery staples via Marketplace	10,854	-	47,293	-
	\$ 43,645	\$ 51,321	\$ 187,255	\$ 101,395

The balance of deferred revenue is summarized in the table below.

	Meal kits	Marketplace	Total
Balance, December 31, 2020	\$ -	\$ -	\$ -
Additions to deferred revenue	39,913	18,045	57,958
Revenue earned during the year	(29,629)	(8,723)	(38,352)
Balance, December 31, 2021	10,284	9,322	19,606
Additions to deferred revenue	9,363	5,378	14,741
Revenue earned during the period	(19,647)	(14,368)	(34,015)
Balance, June 30, 2022	\$ -	\$ 332	\$ 332

The balance of gift card liability is comprised of contractual liability associated with the unredeemed gift cards and coupons. The continuity of the gift card liability is summarized in the table below:

	Gift cards
Balance, December 31, 2020	\$ 59,930
Additions to gift card liability	31,363
Redeemed during the year	(57,606)
Balance, December 31, 2021	33,687
Additions to gift card liability	6,662
Redeemed during the period	(6,370)
Balance, June 30, 2022	\$ 33,979

VEGANO FOODS INC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2022

(Stated in Canadian dollars)

(Unaudited)

14. CONVERTIBLE NOTE

On July 10, 2020, the Company issued an unsecured convertible note bearing interest at 10% with a face value of \$500,000 and a maturity date of May 5, 2021 to an officer of the Company. The note was convertible into common shares of the Company at the option of the holder at any time prior to the maturity date at \$0.25 per share. Accrued interest was payable to the lender on the maturity date and was not convertible.

The Company determined the fair value of the debt component of the convertible note to be \$480,081 on the date of issuance, using a market interest rate of 15%. The residual value of \$19,919 was allocated to the equity component of the note during the year ended December 31, 2020.

During year ended December 31, 2021, the Company repaid the principal amount of \$500,000 and the accrued interest of \$40,959, for a total cash payment of \$540,959.

During the six months ended June 30, 2022, the Company recognized accretion expense on the debt component of the convertible note in the amount of \$nil (June 30, 2021 - \$8,581) and recorded finance costs of \$nil (June 30, 2021 - \$17,122) for accrued interest.

15. LOANS PAYABLE

As at June 30, 2022, the Company had loans payable to arm's length parties in the gross amount of \$6,171 (December 31, 2021 - \$31,171). The loans are non-interest bearing, unsecured and payable on demand.

During the six months ended June 30, 2022, the Company repaid loans payable of \$25,000 (June 30, 2021 - \$nil).

16. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value.

b) Common Shares Held in Escrow

As at June 30, 2022, 6,428,571 common shares were held in escrow and restricted from trading. These common shares will be released from escrow as follows: 1,071,429 common shares released on August 16, 2022, 1,071,429 common shares released on February 15, 2023, 1,071,429 common shares released on August 15, 2023, 1,071,429 common shares released on February 15, 2024, 1,071,429 common shares released on August 15, 2024, and 1,071,426 common shares released on February 15, 2025.

c) Shares Issued

During the six months ended June 30, 2022, the Company issued or cancelled common shares as follows:

- On February 11, 2022, the Company canceled and returned 130,000 common shares to treasury and paid consideration of \$32,500 as a result of a former shareholder exercising rescission rights.
- On February 25, 2022, the Company issued 161,539 common shares in exchange for consulting services with a fair value of \$21,000.
- On March 30, 2022, the Company issued 300,000 common shares with a fair value of \$36,000 to settle amounts payable of \$36,000 pursuant to a debt settlement agreement.

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16. SHARE CAPITAL (CONTINUED)

- On April 4, 2022, the Company issued 175,000 common shares in exchange for consulting services with a fair value of \$21,000.
- On April 6, 2022, the Company issued 637,256 common shares with a fair value of \$57,353 to settle amounts payable of \$58,853 pursuant to debt settlement agreements and recorded a \$1,500 on gain on debt settlement.
- On April 28, 2022, the Company issued 300,000 common shares in exchange for consulting services with a fair value of \$21,000.
- On May 31, 2022, the Company issued 323,077 common shares in exchange for consulting services with a fair value of \$21,000.
- On June 20, 2022, the Company issued 28,678,680 common shares with a fair value of \$2,294,295 in connection with the Amalgamation (Note 4).
- On June 30, 2022, the Company issued 420,000 common shares in exchange for consulting services with a fair value of \$21,000. As at June 30, 2022 consulting services of \$10,500 are included in prepaid expenses and relate to services to be rendered in subsequent periods (Note 7).

d) Obligation to issue shares

As at December 31, 2020, the Company was obligated to issue 6,579,240 common shares in exchange for \$1,644,810 of cash proceeds received. The common shares were issued during the year ended December 31, 2021, resulting in a balance of obligation to issue shares of \$nil as at December 31, 2021.

During the six months ended June 30, 2022, the Company issued 116,169 special warrants in connection with the Amalgamation (Note 4). Each special warrant is exercisable for no additional consideration into one unit of the Company with each unit consisting of one common share and one warrant of the Company. Each warrant is exercisable for one common share of the Company at an exercise price of \$0.11 for a period of 24 months. As at June 30, 2022, 116,169 special warrants were outstanding.

e) Subscription proceeds receivable

As at June 30, 2022 and December 31, 2021, the Company had total subscription proceeds receivable of \$650 for 9,285 common shares issued under private placement tranches. The amount is included in other receivables (Note 6).

17. STOCK OPTIONS

On August 12, 2021, the Company adopted the Stock Option Plan (the "Plan") with the purpose of providing incentives to directors, officers, employees and consultants. The Plan allows the Company to issue up to 10% of its outstanding common shares as stock options.

Stock option activity during the six months ended June 30, 2022 is summarized below.

- On February 7, 2022, the Company cancelled 150,000 stock options held by a former employee. The stock options had an exercise price of \$0.25 and an expiry of August 10, 2023.

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17. STOCK OPTIONS (CONTINUED)

- On March 2, 2022, the Company cancelled 50,000 stock options held by a former employee. The stock options had an exercise price of \$0.25 and an expiry of August 10, 2023.
- On March 18, 2022, the Company cancelled 2,250,000 stock options held by the Chief Executive Officer and Chief Financial Officer of the Company. The stock options had an exercise price of \$0.25 and an expiry of January 1, 2023.
- On March 24, 2022, the Company granted 1,800,000 stock options with an exercise price of \$0.105 and expiry date of March 24, 2027 to certain directors and consultants of the Company. The stock options vested immediately.
- On April 4, 2022, the Company cancelled 200,000 stock options held by a former employee. The stock options had an exercise price of \$0.25 and an expiry of August 10, 2023.
- On April 6, 2022, the Company granted 750,000 stock options with an exercise price of \$0.09 and expiry date of April 7, 2024 to a consultant of the Company. The stock options vested immediately.

Stock option activity for the six months ended June 30, 2022 and year ended December 31, 2021 is summarized in the table below.

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2020	-	\$ -
Granted	9,400,000	0.19
Cancelled	(3,800,000)	0.10
Outstanding at December 31, 2021	5,600,000	0.25
Granted	2,550,000	0.10
Cancelled	(2,650,000)	0.25
Outstanding at June 30, 2022	5,500,000	\$ 0.18

As at June 30, 2022, the following stock options were outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining Life (Years)	Expiry Date
2,650,000	2,650,000	\$0.25	0.51	January 1, 2023
300,000	97,500	\$0.25	2.12	August 10, 2024
1,800,000	1,800,000	\$0.105	4.73	March 24, 2027
750,000	750,000	\$0.09	1.77	April 6, 2024
5,500,000	5,297,500			

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17. STOCK OPTIONS (CONTINUED)

During the six months ended June 30, 2022, the Company recorded share-based compensation of \$190,923 (June 30, 2021 - \$102,499) related to the fair value of options vested in the period. The following weighted average assumptions were applied using the Black-Scholes Option Pricing model used to estimate the weighted average fair value of stock options granted during the six months ended June 30, 2022 and 2021:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Risk-free interest rate	2.28%	0.22%
Expected life (years)	4.12	2.05
Annualized volatility	100%	100%
Dividend yield	0%	0%

The Company has used the annualized volatility with reference to the historical record of comparable public companies.

18. WARRANTS

Warrant activity for the six months ended June 30, 2022 is summarized below.

- On June 20, 2022, the Company issued 10,946,754 warrants with an exercise price of \$0.06 and expiry date of June 20, 2024 in connection with the Amalgamation (Note 4).
- On June 20, 2022, the Company issued 8,652,822 warrants with an exercise price of \$0.11 and expiry date of June 20, 2024 in connection with the Amalgamation (Note 4).

Warrant activity for the six months ended June 30, 2022 and year ended December 31, 2021 is summarized in the table below.

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2020	-	\$ -
Issued	193,600	0.25
Outstanding at December 31, 2021	193,600	0.25
Issued	19,599,576	0.08
Outstanding at June 30, 2022	19,793,176	\$ 0.08

As at June 30, 2022, the following warrants were outstanding:

Outstanding	Exercise Price	Remaining Life (Years)	Expiry Date
86,400	\$0.25	0.58	January 29, 2023
107,200	\$0.25	0.66	February 26, 2023
10,946,754	\$0.06	1.98	June 20, 2024
8,652,822	\$0.11	1.98	June 20, 2024
19,793,176			

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18. WARRANTS (CONTINUED)

The following weighted average assumptions were used to estimate the weighted average grant date fair value of warrants granted during the six months ended June 30, 2022 and 2021:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Risk-free interest rate	3.26%	0.23%
Expected life (years)	2.00	2.00
Annualized volatility	109.50%	100%
Dividend yield	0%	0%

The Company has used the annualized volatility with reference to the historical record of comparable public companies.

19. RELATED PARTY TRANSACTIONS AND BALANCES*Key management compensation*

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel is summarized in the table below.

	Six months ended June 30, 2022	Six months ended June 30, 2021
Salaries and benefits		
Chief Executive Officer ("CEO")	\$ 56,814	\$ 176,589
Former Chief Operating Officer ("COO")	42,086	68,159
Former Vice President of Sales	-	40,212
Directors	12,000	-
Family member of the CEO	1,420	-
Consulting		
Company controlled by the CEO	205,833	-
Family member of the CEO	33,825	39,107
Share-based compensation (Note 18)		
CEO	-	47,954
Chief Financial Officer ("CFO")	-	17,983
Former COO	-	20,380
Directors	36,724	-
Family member of the CEO	78,858	-
	\$ 467,560	\$ 410,384

Related party transactions and balances

During the six months ended June 30, 2022, the Company incurred professional fees of \$184,720 (June 30, 2021 - \$78,204) to a company controlled by the Chief Financial Officer.

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19. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

As at June 30, 2022, amounts due to related parties included in accounts payable and other liabilities consisted of \$138,930 (December 31, 2021 - \$60,811) in consulting and professional fees and accrued salaries owed to related parties. These amounts are non-interest bearing, unsecured and due on demand.

As at June 30, 2022, advances due from related parties included in other receivables consisted of \$30,203 (December 31, 2021 - \$nil) in advances to an officer of the Company for the purpose of expenses to be incurred on behalf of the Company and \$10,000 (December 31, 2021 - \$nil) in advances to a Company controlled by the CEO (Note 6). The amounts are non-interest bearing, unsecured and are due on demand.

As at June 30, 2022, included in prepaid expenses is \$20,988 (December 31, 2021 - \$nil) related to a retainer for future services to be rendered by a Company controlled by the Chief Financial Officer.

20. COST OF GOODS SOLD

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Ingredients	\$ 21,830	\$ 33,318	\$ 125,762	\$ 60,410
Direct labour	-	23,979	46,643	37,666
Delivery and packaging	6,836	30,096	66,837	43,422
Merchandise	12,188	-	67,580	-
Other direct costs	2,141	989	8,332	4,351
	\$ 42,995	\$ 88,382	\$ 315,154	\$ 145,849

21. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	June 30		June 30	
	2022	2021	2022	2021
Filing fees	\$ 23,761	\$ 7,280	\$ 74,407	\$ 7,795
Insurance	874	814	1,748	1,628
Interest and bank charges	1,808	1,636	2,769	2,675
Kitchen expenses and product development	502	31,436	742	31,928
Meals and entertainment	8,783	20,119	19,120	42,763
Office expenses	1,990	18,436	18,045	40,919
Rent	-	34,850	14,080	59,526
Repairs and maintenance	-	6,864	866	7,476
Shipping and delivery	-	1,580	150	2,067
Subscriptions	6,173	7,056	23,514	12,233
Utilities	527	7,767	5,445	15,693
Website expenses	4,901	18,361	12,311	36,613
	\$ 49,319	\$ 156,199	\$ 173,197	\$ 261,316

22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the degree to which the inputs used to estimate the fair values are observable:

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22. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

- Level 1 – Unadjusted quoted price in active market for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices);
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair values of cash and cash equivalents, other receivables, accounts payable and other liabilities and loans payable of the Company approximate their carrying values due to their short-term nature.

The investment in Superbolt held by the Company is considered to represent a level 3 fair value measurement.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash and cash equivalents held in bank accounts and other receivables. The majority of cash and cash equivalents are deposited in bank accounts held with a major bank and reputable online payment processing platforms. As the Company's cash and cash equivalents is held by only one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. Other receivables primarily comprise of balances recoverable from the tax authority for sales tax paid and advances due from the Company's CEO. Management has estimated the expected credit loss to be \$nil with respect to these other receivables. The Company's exposure to credit risk is low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by maintaining adequate cash balances and by raising equity financings. The Company has no assurance that such financings will be available on favorable terms. In general, the Company attempts to avoid exposure to liquidity risk by obtaining corporate financing through the issuance of common shares.

As at June 30, 2022, the Company had cash and cash equivalents of \$73,035 to settle current liabilities of \$331,540 which fall due for payment within twelve months of the statement of financial position. All of the Company's contractual obligations are current and due within one year. All of the Company's financial liabilities are due on demand.

23. COMMITMENTS

Leases

During the year ended December 31, 2021, the Company entered into a premise lease for an office space with a term of one-year that expired on February 8, 2022. During the year ended December 31, 2021, the Company terminated the lease contract; and as a result, the amount due for the remainder of the lease became due immediately. As at June 30, 2022 and December 31, 2021, accounts payable and other liabilities includes \$25,833 with respect to the lease contract.

During the six months ended June 30, 2022, the Company leased kitchen space on a month-to-month basis.

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23. COMMITMENTS (CONTINUED)

During the six months ended June 30, 2022, the Company recognized total rent expense, included in general and administrative expense, of \$14,080 (June 30, 2021 - \$59,526) in connection with short-term lease contracts.