

Nabati Foods Global Inc.

(formerly 1279006 B.C. Ltd.)

Condensed Consolidated Interim Financial Statements

Six months ended June 30, 2022

(In Canadian Dollars)

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Nabati Foods Global Inc. for the six months ended June 30, 2022, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with the standard established by the Chartered Professional Accountants of Canada for a review of the interim financial statements by an auditor.

Nabati Foods Global Inc.

(formerly 1279006 B.C. Ltd.)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

| As at | | June 30, 2022 | | December 31, 2021 |
|---|----|------------------|----|----------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash | \$ | 14,658 | \$ | 24,997 |
| Trade and other receivables (Note 5) | | 425,487 | | 432,526 |
| Inventory (Note 6) | | 163,630 | | 245,654 |
| | | 603,775 | | 703,177 |
| Deposits | | 11,631 | | 11,014 |
| | \$ | 615,406 | \$ | 714,191 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables (Note 12) | \$ | 2,629,730 | \$ | 1,867,151 |
| Due to shareholders (Note 12) | | 200,490 | | 50,020 |
| Loans payable (Note 10) | | 387,192 | | 25,000 |
| Current portion of lease liabilities (Note 8) | | 612,242 | | 681,817 |
| | | 3,829,654 | | 2,623,988 |
| Non-current liability | | | | |
| Lease liabilities (Note 8) | | 1,302,273 | | 1,199,517 |
| | | 5,131,927 | | 3,823,505 |
| Shareholders' Deficiency | | | | |
| Share capital (Note 11) | | 14,817,604 | | 14,119,489 |
| Share-based payment reserve | | 3,413,912 | | 2,968,266 |
| Warrant reserve | | 3,265,699 | | 3,448,699 |
| Accumulated other comprehensive income (loss) | | (4,904) | | 23,495 |
| Accumulated Deficit | | (26,008,832) | | (23,669,263) |
| | | (4,516,521) | | (3,109,314) |
| | \$ | 615,406 | \$ | 714,191 |

Nature and Continuance of Operations (Note 1)

Commitments (Note 15)

"Ahmad Yehya" Director
 Ahmad Yehya

"David Bentil" Director
 David Bentil

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

Nabati Foods Global Inc.

(formerly 1279006 B.C. Ltd.)

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

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

(Unaudited - Expressed in Canadian Dollars)

| | Six months ended | | Three months ended | |
|---|------------------|-----------------|--------------------|----------------|
| | June 30, 2022 | June 30, 2021 | June 30, 2022 | June 30, 2021 |
| Revenue | \$ 278,596 | \$ 335,301 | \$ 86,968 | \$ 195,750 |
| Cost of sales | (450,085) | (359,593) | (111,679) | (213,011) |
| Gross profit | (171,489) | (24,292) | (24,711) | (17,261) |
| Operating Expenses | | | | |
| Advertising and promotion | 119,009 | 1,436,882 | 44,198 | 203,640 |
| Bank charges | 3,887 | 6,129 | 716 | 2,035 |
| Consulting fees | 497,262 | 288,028 | 20,762 | 90,721 |
| Depreciation | - | 132,844 | - | 21,121 |
| Foreign exchange (gain) loss | 39 | (5,058) | - | (118,607) |
| Interest expense (Note 8, 10) | 224,024 | 38,226 | 108,437 | 33,840 |
| Office and administration | 86,899 | 225,306 | 16,104 | 116,372 |
| Professional fees | 434,128 | 534,717 | 68,606 | 327,117 |
| Regulatory and filing fees | 11,423 | - | 5,856 | - |
| Rent | 69,070 | 21,845 | 34,358 | 15,926 |
| Repairs and maintenance | 4,321 | 15,844 | 675 | 13,271 |
| Research and development | - | 2,854 | - | 2,854 |
| Salaries and benefits (Note 12) | 441,338 | 352,554 | 85,214 | 271,808 |
| Share-based compensation | 472,025 | - | 294,728 | - |
| Telephone and utilities | 25,536 | 19,784 | 5,253 | 6,598 |
| Travel | 11,902 | 2,348 | 3,757 | 2,284 |
| Total operating expenses | 2,400,863 | 3,072,303 | 688,664 | 988,980 |
| Net loss before other items | (2,572,352) | (3,096,595) | (713,375) | (1,006,241) |
| Listing fees (Note 4) | - | (7,084,984) | - | - |
| Recovery of loss on re-valuation of assets (Note 17) | 233,592 | - | 120,073 | - |
| Loss on re-valuation of assets (Note 17) | (59,452) | - | - | - |
| Interest and accretion (Note 9) | - | (5,239) | - | 31,367 |
| Fair value loss on derivative liability (Note 9) | - | - | - | (42,700) |
| Grant income (loss) | 58,643 | - | - | (16,721) |
| Net loss | (2,339,569) | (10,186,818) | (593,302) | (1,034,295) |
| Other comprehensive loss | | | | |
| Foreign currency translation | (28,399) | (2,048) | (47,381) | (1,241) |
| Comprehensive loss | \$ (2,367,968) | \$ (10,188,866) | \$ (640,683) | \$ (1,035,536) |
| Loss per share – basic and diluted | (0.05) | (0.31) | (0.01) | (0.02) |
| Weighted average number of shares outstanding – basic and diluted | 47,241,328 | 33,102,830 | 47,997,796 | 56,391,665 |

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

Nabati Foods Global Inc.

(formerly 1279006 B.C. Ltd.)

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

For the six months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

| | Number of Shares | Capital Amount | Special Warrants | Share- Based Payment Reserve | Warrant Reserve | Other Comprehensive Income (Loss) | Accumulated Deficit | Total Shareholders' Equity (Deficiency) |
|--|---------------------|----------------------|---------------------|---------------------------------------|---------------------|---|------------------------|--|
| Balance, December 31, 2020 | 225 | \$ 225 | \$ - | \$ - | \$ - | \$ 1,683 | \$ (1,839,208) | \$ (1,837,300) |
| Shares cancelled | (225) | - | - | - | - | - | - | - |
| Units issued | 7,000,000 | 35,000 | - | - | - | - | - | 35,000 |
| Share issuance costs | - | (804,014) | - | - | 259,004 | - | - | (545,010) |
| Exercised convertible debenture | 6,882,897 | 2,315,170 | - | - | - | - | - | 2,315,170 |
| Special warrants issued | - | - | 7,746,650 | - | - | - | - | 7,746,650 |
| Shares issued for exercise of special warrants | 323,000 | 16,150 | (16,150) | - | - | - | - | - |
| Consideration shares issued for acquisition | 14,000,000 | 6,702,500 | 310,080 | - | - | - | - | 7,012,580 |
| Performance shares issued | 1,750,000 | 875,000 | - | - | - | - | - | 875,000 |
| Translation adjustments | - | - | - | - | - | (2,048) | - | (2,048) |
| Net loss for the period | - | - | - | - | - | - | (10,186,818) | (10,186,818) |
| Balance, June 30, 2021 | 29,955,897 | \$ 9,140,031 | \$ 8,040,580 | \$ - | \$ 259,004 | \$ (365) | \$ (12,026,026) | \$ 5,413,224 |
| Balance, December 31, 2021 | 45,859,233 | \$ 14,119,489 | \$ - | \$ 2,968,266 | \$ 3,448,699 | \$ 23,495 | \$ (23,669,263) | \$ (3,109,314) |
| Exercise of warrants | 400,000 | 203,000 | - | - | (183,000) | - | - | 20,000 |
| Exercise of options | 416,479 | 57,615 | - | (26,379) | - | - | - | 31,236 |
| Performance shares issued | 1,749,999 | 437,500 | - | - | - | - | - | 437,500 |
| Share-based compensation | - | - | - | 472,025 | - | - | - | 472,025 |
| Translation adjustments | - | - | - | - | - | (28,399) | - | (28,399) |
| Net loss for the period | - | - | - | - | - | - | (2,339,569) | (2,339,569) |
| Balance, June 30, 2022 | 48,425,711 | \$ 14,817,604 | \$ - | \$ 3,413,912 | \$ 3,265,699 | \$ (4,904) | \$ (26,008,832) | \$ (4,516,521) |

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

Nabati Foods Global Inc.
(formerly 1279006 B.C. Ltd.)
Condensed Consolidated Interim Statements of Cash Flows
For the six months ended June 30,
(Unaudited - Expressed in Canadian Dollars)

| | 2022 | 2021 |
|--|------------------|---------------------|
| Operating activities | | |
| Loss for the period | \$ (2,339,569) | \$ (10,174,238) |
| Depreciation | - | 132,843 |
| Share issued for consulting services | 437,500 | 875,000 |
| Fair value gain on derivative liability | - | (42,700) |
| Foreign exchange (gain) loss | - | 5,058 |
| Interest | 220,558 | - |
| Interest and accretion | - | 41,844 |
| Listing fee expense | - | 7,072,404 |
| Share-based compensation | 472,025 | - |
| Loss on re-valuation of assets | 59,452 | - |
| Change in non-cash working capital components: | | |
| Decrease (increase) in trade and other receivables | 7,039 | (285,284) |
| Decrease (increase) in inventory | 82,024 | (796,371) |
| Increase in trade and other payables | 762,579 | 993,432 |
| Net cash flows used in operating activities | (298,392) | (2,178,011) |
| Investing activities | | |
| Purchase of property and equipment | (59,452) | (1,750,645) |
| Deposits | (617) | - |
| Cash used in investing activities | (60,069) | (1,750,645) |
| Financing activities | | |
| Proceeds from issuance of units | - | 35,000 |
| Proceeds from issuance of special warrants | - | 7,746,650 |
| Share issuance costs | - | (533,602) |
| Restricted cash | - | (6,400) |
| Proceeds from convertible debenture | - | 300,000 |
| Due to shareholders | 150,470 | 63 |
| Loan received | 325,000 | - |
| Lease payments | (150,185) | (36,834) |
| Vehicle loan payments | - | (32,820) |
| Proceeds from exercise of warrants | 20,000 | - |
| Proceeds from exercise of options | 31,236 | - |
| Cash provided by financing activities | 376,521 | 7,472,057 |
| Change in cash during the period | 18,060 | 3,543,401 |
| Effects of exchange rate changes on cash | (28,399) | (2,165) |
| Cash, beginning of period | 24,997 | 14,893 |
| Cash, end of period | \$ 14,658 | \$ 3,556,129 |

For supplemental cash flow disclosures, see Note 16

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

Nabati Foods Global Inc.

(formerly 1279006 B.C. Ltd.)

Notes to the Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

1. Nature and Continuance of Operations

Nabati Foods Global Inc. (formerly 1279006 B.C. Ltd.) (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on December 10, 2020. The Company is a food technology company that offers healthy, plant-based products. The Company’s head office is located at 1570 – 505 Burrard Street, Vancouver, British Columbia V7X 1M5 and its registered and records office is located at 1500 – 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

On March 9, 2021, the Company acquired all of the issued and outstanding ordinary shares in the capital of Nabati Foods Inc. by way of a reverse takeover (“RTO”), in exchange of the issuance of 14,000,000 shares in the Company to former Nabati Foods Inc. shareholders. This resulted in Nabati Foods Inc. becoming a 100% wholly-owned subsidiary of the Company. (Note 4).

Subsequent to the period ended June 30, 2022, the Company ceased operations in Canada, due to unexpected market conditions where liquidity was unavailable and prevented the company from raising capital via a private placement. As a result, these financial statements have been prepared using the liquidation basis of accounting.

These condensed consolidated interim financial statements do not include costs to liquidate the assets of the Company, settle any contingent liabilities or future administrative costs and professional fees to wind up activities of the Company. These costs may be material.

The recent outbreak of the coronavirus, also known as “COVID-19,” has spread across the globe and is impacting worldwide economic activity. Conditions surrounding the coronavirus continue to rapidly evolve and government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company’s business activities. The extent to which the coronavirus may impact the Company’s business activities will depend on future developments, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Canada and other countries to contain and treat the disease. The effect that these events will have on the price of Bitcoin, the ability for the Company to raise capital and the supply of upgraded equipment are highly uncertain and as such, the Company cannot determine the corresponding financial impacts at this time.

2. Basis of Presentation and Critical Accounting Estimates, Judgments and Assumptions**Statement of Compliance**

These condensed consolidated interim financial statements have been prepared using the liquidation basis for accounting.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, “Interim Financial Reporting for the International Financial Reporting Standards” (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS as issued by IASB and interpretations of the IFRS Interpretations Committee (“IFRIC”). The accounting policies followed in these condensed consolidated interim financial statements are consistent with those applied in the Company’s financial statements for the year ended December 31, 2021.

These condensed consolidated interim financial statements were approved and authorized for issuance on September 1, 2022 by the Board of Directors of the Company.

2. Basis of Presentation and Critical Accounting Estimates, Judgments and Assumptions (cont'd)

Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at their fair value as explained in the accounting policies set out below. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except cash flow information.

Principles of Consolidation

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. All intercompany balances, transactions, revenues and expenses have been eliminated on consolidation.

As of June 30, 2022, the Company had two wholly-owned subsidiaries:

- Nabati Foods Inc.
- Nabati Foods Inc. (US)

Functional and Presentation Currency

These condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise noted, which is the functional currency of the Company.

The functional currency of Nabati Foods Global Inc. and Nabati Foods Inc. is the Canadian dollar while the functional currency of Nabati Foods Inc. (US) is the US dollar.

Critical Accounting Estimates, Judgments and Assumptions

The preparation of the Company's condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Critical accounting estimates made by the Company, include the following:

Deferred tax liabilities and assets

Deferred tax liabilities and assets are measured at tax rates expected in the period during which the asset is realized or the liability is settled, based on tax rates (and tax laws) that are enacted or substantively enacted at the end of the reporting period of the financial information. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that result from the manner in which the Company expects, at the end of the reporting period of the financial information, to recover or settle the carrying amount of its assets and liabilities.

Depreciation

Depreciation of property, plant and equipment and right-of-use assets is dependent upon estimates of useful lives based on management's judgment.

2. Basis of Presentation and Critical Accounting Estimates, Judgments and Assumptions (cont'd)

Critical Accounting Estimates, Judgments and Assumptions (cont'd)

Impairment of non-financial assets

The assessment of any impairment of property, plant and equipment is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions, the useful lives of assets, definition of the cost generating unit and estimates used to measure impairment losses. The recoverable value of these assets is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

Variables and assumptions used in measurement of liabilities

The measurement of convertible notes, derivative liabilities and lease liabilities are determined based on estimates of discount rates and assumptions determined by management at the time of measurement.

Share-based payments

Estimating fair value for share-based payment transaction requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility and dividend yield and making assumptions about them.

3. Significant Accounting Policies

Cash and Cash Equivalents

Cash equivalents include money market instruments that are readily convertible to cash and have maturities at the date of purchase of less than ninety days. There were no cash equivalents as at June 30, 2022 and December 31, 2021.

Leases

The measurement of the right-of-use asset ("ROU"), lease liability, and the resulting interest expense and depreciation expense are determined with the application of the rate implicit in the lease, unless this cannot readily be determined, in which case the lessee's incremental borrowing rate is used instead. The incremental borrowing rate is defined as the rate that the lessee would have to pay to borrow over a similar term and with similar security, the fund necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate involves estimate and judgements including economic environment, term, currency and the underlying risk inherent to the asset

Right-Of-Use Asset

The calculated ROU asset is initially recorded at cost, which comprises the initial amount of the lease liability and any initial direct costs incurred less any lease payments made at or before the initial adoption date. The ROU is depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. The lease term includes periods covered by an option to extend if the Company's intention is to exercise that option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for remeasurements of the lease obligation.

3. Significant Accounting Policies (cont'd)

Cash and cash equivalents (cont'd)

Lease Liability

The Company incorporates both the lease and non-lease components as part of the total lease payment, as the Company elected not to separate non-lease components. The lease liability is measured at the present value of the expected lease payments over the lease term, discounted at the interest rate implicit in the lease; if the rate cannot be determined, the incremental borrowing rate is used. The liability is increased for the passage of time and payments on the lease are offset against the lease liability. The liability is subsequently remeasured when there is a change in the lease agreement, such as a change in future lease payments or if the Company decides to purchase, extend or terminate the lease option. When the lease liability is remeasured, an adjustment is applied to the carrying value of the ROU asset.

Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9 Financial Instruments: Classification and Measurement.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) **Recognition and classification**

The Company's financial instruments consist of cash, trade receivables, deposits, trade and other payable, due to shareholders, loans payable, convertible debt, derivative liability, and lease liabilities. Receivables are initially recognized when they are originated. All other financial assets and liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI - equity investment; or fair value through profit or loss ("FVTPL"). Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is a derivative, classified as held-for-trading, or it is designated as such on initial recognition.

3. Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

| Financial assets / liabilities | Classification |
|--------------------------------|----------------|
| Cash | FVTPL |
| Trade receivables | Amortized cost |
| Deposit | Amortized cost |
| Trade and other payables | Amortized cost |
| Due to shareholders | Amortized cost |
| Loans payable | Amortized cost |
| Convertible debt | Amortized cost |
| Derivative liability | FVTPL |
| Lease liabilities | Amortized cost |

(ii) Measurement

Financial assets: Initial measurement

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial assets: Subsequent measurement and gains and losses

Financial assets at amortized cost: These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in the consolidated statement of loss and comprehensive loss. Any gain or loss on derecognition is recognized in the consolidated statement of loss and comprehensive loss.

Financial liabilities

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the consolidated statement of loss and comprehensive loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the consolidated statement of loss and comprehensive loss. Any gain or loss on derecognition is also recognized in the consolidated statement of loss and comprehensive loss.

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or

3. Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

(iii) Derecognition (cont'd)

Financial assets (cont'd)

in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Company enters into transactions whereby it transfers assets recognized in its consolidated statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in the consolidated statement of loss or comprehensive loss.

(iv) Write-off

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate cash flows to repay the amounts subject to the write-off. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Impairment of Financial Assets

The Company recognizes an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Company recognizes expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

3. Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Impairment of Financial Assets (cont'd)

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

The carrying amount of the Company's non-financial assets is reviewed at each financial reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized when the carrying amount of an asset or CGU exceeds its recoverable amount. If the carrying value of the Company's property, plant and equipment exceeds its estimated recoverable value, an impairment loss is recognized to write the assets down to the recoverable value. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the greater of value in use and fair value less costs to sell. 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. In determining fair value less cost of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

Property, Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a declining basis over the estimated useful life of the assets as follows:

| | |
|-------------------------|-----------------------|
| Furniture and equipment | 20% declining balance |
| Computer equipment | 55% declining balance |
| Leasehold improvements | Term of lease |
| Machinery and equipment | 20% declining balance |
| Vehicles | 30% declining balance |

An asset's residual value, useful life and depreciation method are reviewed at each financial year-end and adjusted if appropriate.

The Company capitalizes borrowing costs on capital invested in projects under construction. Upon commencement of operations, capitalized borrowing costs, as a portion of the total cost of the asset, are depreciated over the estimated useful life of the related asset.

3. Significant Accounting Policies (cont'd)

Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the consolidated statements of operations.

Revenue Recognition

IFRS 15, Revenue from contracts with customers ("IFRS 15"), effective for annual periods beginning on or after January 1, 2018, specifies how and when to recognize revenue, based on a five-step model, and enhances relevant disclosures to be applied to all contracts with customers. To recognize revenue under IFRS 15, the Company applies the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the Company satisfies a performance obligation.

The Company recognizes revenue when control of the goods or services has been transferred to the customer. Revenue is measured at the fair value of the amount of consideration to which the Company expects to be entitled to, including variable consideration, if any, to the extent that it is highly probable that a significant reversal will not occur.

Net revenue reflects the Company's sale of merchandise, less returns and discounts. Retail revenue at point-of-sale is measured at the fair value of the consideration received at the time the sale is made to the customer, net of discounts and estimated allowance for returns. eCommerce revenue is recognized at the date control has been transferred to the customer, and measured at the fair value of the consideration received, net of discounts and an estimated allowance for returns.

Shipping fees billed to customers are recorded as revenue, and shipping costs are recognized within cost of sales in the same period the related revenue is recognized.

Revenues are reported net of sales taxes collected for various governmental agencies.

Receipts from the sale of gift cards are treated as deferred revenue. When gift cards are redeemed for merchandise, the Company recognizes the related revenue. The Company estimates gift card breakage, to the extent there is no requirement for remitting card balances to government agencies under unclaimed property laws, and recognizes revenue in proportion to actual gift card redemptions as a component of net revenue.

The Company recognizes promotional gift cards as reduction of revenue upon redemption.

Consulting fee revenue is earned from management oversight services provided by the Company. Performance obligations are considered satisfied once the monthly consulting services have been provided. At this point revenue is recognized provided that collectability is assured.

3. Significant Accounting Policies (cont'd)

Cost of Sales

Cost of sales includes:

- the cost of purchased merchandise, which includes acquisition and production costs including raw material and labor, as applicable;
- the cost incurred to deliver inventory to the Company's distribution centers including freight, nonrefundable taxes, duty, and other landing costs;
- the cost of the Company's distribution centers, such as labor, rent, utilities, and depreciation;
- the cost of the Company's production, design, research and development, distribution, and merchandising departments including salaries, stock-based compensation and benefits, and other expenses;
- occupancy costs such as minimum rent, contingent rent where applicable, property taxes, utilities, and depreciation expense for the Company's company-operated store locations; and
- shrink and inventory provision expense.

Inventories

Inventories, consisting of finished goods, inventories in transit, and raw materials, are stated at the lower of cost and net realizable value. Cost is determined using weighted-average costs, and includes all costs incurred to deliver inventory to the Company's distribution centers including freight, non-refundable taxes, duty, and other landing costs.

The Company periodically reviews its inventories and makes a provision as necessary to appropriately value goods that are obsolete, have quality issues, or are damaged. The amount of the provision is equal to the difference between the cost of the inventory and its net realizable value based upon assumptions about product quality, damages, future demand, selling prices, and market conditions. If changes in market conditions result in reductions in the estimated net realizable value of its inventory below its previous estimate, the Company would increase its reserve in the period in which it made such a determination.

In addition, the Company provides for inventory shrinkage based on historical trends from actual physical inventory counts. Inventory shrinkage estimates are made to reduce the inventory value for lost or stolen items. The Company performs physical inventory counts and cycle counts throughout the year and adjusts the shrink reserve accordingly.

Grant Income

Grant income are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

Income Taxes

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

3. Significant Accounting Policies (cont'd)

Income Taxes (cont'd)

Deferred taxes are recorded using the liability method. Under the liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that the substantive enactment or enactment occurs. Deferred tax assets are recognized only to the extent it is probable that future taxable profits will be available against which the asset can be utilized.

Per Share Amounts

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options, warrants and convertible debt are used to repurchase common shares at the prevailing market rate. Diluted earnings (loss) per share is equal to the basic earnings (loss) per share as the outstanding options and warrants are anti-dilutive.

Related Party Transactions

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

Provisions

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured as the expenditure expected to be required to settle the obligation at the reporting date. In cases where it is determined that the effects of the time value of money are significant, the provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

3. Significant Accounting Policies (cont'd)

Share Based Payments

The Company applies the fair value method of accounting for stock option awards using the Black-Scholes option pricing model. Under this method, the Company recognizes compensation expense for employee stock option awards, based on the grant date fair value, for each vesting instalment, over the vesting period of the options. Each instalment is valued separately, based on assumptions determined from historical reference and recognized as compensation expense over each instalment's individual tranche vesting period, which results in a corresponding increase in equity (reserves). Forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods.

In situations where stock option awards are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share based payment. Otherwise, share based payments are measured at the fair value of goods or services received.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

Share Capital

Common shares and special warrants are classified as equity. Transaction costs directly attributable to the issue of common shares and special warrants are recognized as a deduction from equity as share issue costs, net of any tax effects. Common shares issued for consideration other than cash are valued based on their fair value at the date the shares are issued. The proceeds from the issuance of units are allocated between the common shares and the attached warrant using the residual value method. Under this method, the proceeds are allocated first to share capital based on the fair value of the common share, and any residual value is allocated to the warrant reserve.

Share issue costs and other legal fees related to and incurred in advance of share subscriptions are recorded as deferred financing costs. Share issue costs related to uncompleted share subscriptions are charged to profit or loss.

Special Warrants

Special warrants are classified as equity. Incremental costs directly attributable to the issue of special warrants are recognized as a deduction from equity, net of any tax effects. Upon the exercise of special warrants, the fair value of the special warrants on the date of issue is allocated to share capital.

Commissions and fees paid to agents and other related special warrants issue costs are charged directly to special warrants.

Restricted Share Units

Restricted share units are classified as equity. They are value at fair value. for each vesting instalment, over the vesting period of the restricted share units.

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4. Reverse Takeover Transaction

On March 9, 2021, the Company acquired all of the issued and outstanding shares in the capital of Nabati Foods Inc. by way of a reverse takeover ("RTO"), in exchange of the issuance of 14,000,000 common shares to the former shareholders of Nabati Foods Inc. For accounting purposes, the acquisition is considered to be outside the scope of IFRS 3 *Business Combinations* ("IFRS 3"), since the Company prior to the acquisition did not constitute a business. The transaction is accounted for in accordance with IFRS 2 *Share-based Payment* ("IFRS 2") whereby Nabati Foods Inc. has issued units and special warrants in exchange for the net assets of Nabati Foods Global Inc. (formerly 1279006 B.C. Ltd.). The accounting for this transaction resulted in the following:

- (i) The consolidated financial statements of the combined entity are issued under the legal parent, Nabati Foods Global Inc., but are considered a continuation of the financial statements of the legal subsidiary, Nabati Foods Inc.
- (ii) Nabati Foods Inc. is deemed to be the acquirer for accounting purposes, its assets and liabilities are included in the consolidated financial statements at their historical carrying values.

Since the shares allocated to the former shareholders of Nabati Foods Inc. on closing the RTO is considered within the scope of IFRS 2, and the Company cannot identify specifically some or all of the goods or services received in return for the allocation of the shares, the value in excess of the net identifiable assets or obligations of the Company acquired on closing was expensed in the consolidated statement of loss and comprehensive loss as a listing expense. The fair value of the 7,000,000 units of the Company was determined to be \$6,702,500 or \$0.96 per unit, which comprised of \$3,500,000 for the value of 7,000,000 common shares and \$3,202,500 for the value of 7,000,000 warrants determined using the Black-Scholes Option pricing model with the following assumptions: Volatility of 120%, expected life of 1.85 years, and risk-free discount rate of 0.27%. In addition, the fair value of the 323,000 special warrants was determined to be \$161,500 or \$0.50 per special warrant.

- (iii) The fair value of the consideration given and charged to listing expense was comprised of:

| Consideration | | |
|--|----|-----------|
| 7,000,000 units at \$0.96 per unit | \$ | 6,702,500 |
| 323,000 Special warrants at \$0.50 per special warrant | | 161,500 |
| | | 6,864,000 |
| Net assets acquired | | (23,736) |
| Listing fee | \$ | 6,887,736 |

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5. Trade and Other Receivables

| | June 30, 2022 | December 31, 2021 |
|--------------------------------------|---------------|-------------------|
| Trade receivables | \$ 27,851 | \$ 66,843 |
| GST receivable and other receivables | 397,636 | 365,683 |
| Balance, end of year | \$ 425,487 | \$ 432,526 |

During the six months ended June 30, 2022, the Company recognized bad debts expense of \$nil (December 31, 2021 - \$81,677) relating to trade receivables determined to be uncollectible as at June 30, 2022.

6. Inventory

| | June 30, 2022 | December 31, 2021 |
|----------------------|---------------|-------------------|
| Finished goods | \$ 135,967 | \$ 136,464 |
| Raw materials | 27,663 | 109,190 |
| Balance, end of year | \$ 163,630 | \$ 245,654 |

During the six months ended June 30, 2022, the Company expensed \$nil (December 31, 2021 - \$2,426,011) of inventory in cost of sales.

The Company recorded a reserve to value inventory to its estimated net realizable value. There was an adjustment to cost of sales in the amount of \$2,001,749 to impair inventory during the year ended December 31, 2021 (2020 - \$nil).

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7. Property, Plant and Equipment

| | Furniture and equipment | | Computer equipment | | Leasehold improvements | | Machinery and equipment | | Vehicles | | Total |
|--|-------------------------|----------|--------------------|----------|------------------------|-----------|-------------------------|-----------|----------|----------|----------------|
| Cost: | | | | | | | | | | | |
| At December 31, 2019 | \$ | 8,080 | \$ | 760 | \$ | 31,014 | \$ | 68,115 | \$ | 55,899 | \$ 166,282 |
| Additions | | 2,834 | | — | | 4,768 | | 33,418 | | — | 41,020 |
| At December 31, 2020 | | 10,914 | | 760 | | 35,782 | | 101,533 | | 55,899 | 204,888 |
| Additions | | 25,984 | | 25,909 | | 446,270 | | 778,590 | | 16,000 | 1,292,753 |
| At December 31, 2021 | | 36,898 | | 26,669 | | 482,052 | | 880,123 | | 71,899 | 1,497,641 |
| Additions | | - | | - | | 37,001 | | 22,451 | | - | 59,452 |
| At June 30, 2022 | \$ | 36,898 | \$ | 26,669 | \$ | 519,053 | \$ | 902,574 | \$ | 71,899 | \$ 1,557,093 |
| Accumulated amortization: | | | | | | | | | | | |
| At December 31, 2019 | \$ | 2,857 | \$ | 738 | \$ | 13,919 | \$ | 29,781 | \$ | 26,110 | \$ 73,405 |
| Additions | | 1,328 | | 12 | | 3,111 | | 11,008 | | 8,936 | 24,395 |
| At December 31, 2020 | | 4,185 | | 750 | | 17,030 | | 40,789 | | 35,046 | 97,800 |
| Additions | | 5,184 | | 6,975 | | 73,728 | | 128,971 | | 7,856 | 222,714 |
| At December 31, 2021 and June 30, 2022 | \$ | 9,369 | \$ | 7,725 | \$ | 90,758 | \$ | 169,760 | \$ | 42,902 | \$ 320,514 |
| Less re-valuation amount as at December 31, 2021 (Note 17) | \$ | (27,529) | \$ | (18,944) | \$ | (391,294) | \$ | (710,363) | \$ | (28,997) | \$ (1,177,127) |
| Less re-valuation amount during the six months ended June 30, 2022 (Note 17) | | - | | - | | (37,001) | | (22,451) | | - | (59,452) |
| Net book value: | | | | | | | | | | | |
| At December 31, 2020 | \$ | 6,729 | \$ | 10 | \$ | 19,475 | \$ | 60,021 | \$ | 20,853 | \$ 107,088 |
| At December 31, 2021 and June 30, 2022 | \$ | - | \$ | - | \$ | - | \$ | - | \$ | - | \$ - |

8. Right-Of-Use Assets and Lease Liabilities

Right-Of-Use Assets

| | Equipment Leases | Vehicle Lease | Warehous e lease | Office Lease | Total |
|--|---------------------|------------------|---------------------|-----------------|----------------|
| Costs: | | | | | |
| At December 31, 2019 | \$ - | \$ - | \$ - | \$ 66,010 | \$ 66,010 |
| Additions | 52,167 | 32,879 | 26,181 | - | 111,227 |
| At December 31, 2020 | 52,167 | 32,879 | 26,181 | 66,010 | 177,237 |
| Additions | 1,266,119 | - | 629,383 | - | 1,895,502 |
| At December 31, 2021 and June 30, 2022 | \$ 1,318,286 | \$ 32,879 | \$ 655,564 | \$ 66,010 | \$ 2,072,739 |
| Depreciation: | | | | | |
| At December 31, 2019 | \$ - | \$ - | \$ - | \$ 5,500 | \$ 5,500 |
| Charge for the period | 8,806 | 1,580 | 11,221 | 22,005 | 43,612 |
| At December 31, 2020 | 8,806 | 1,580 | 11,221 | 27,505 | 49,112 |
| Charge for the period | 53,324 | 8,220 | 51,797 | 22,004 | 135,346 |
| At December 31, 2021 and June 30, 2022 | \$ 62,130 | \$ 9,800 | \$ 63,018 | \$ 49,509 | \$ 184,457 |
| Less re-valuation amount as at December 31, 2021 (Note 17) | \$ (1,256,156) | \$ (23,079) | \$ (592,546) | \$ (16,501) | \$ (1,888,282) |
| Net book value: | | | | | |
| At December 31, 2020 | \$ 43,361 | \$ 31,299 | \$ 14,960 | \$ 38,505 | \$ 128,125 |
| At December 31, 2021 and June 30, 2022 | \$ - | \$ - | \$ - | \$ - | \$ - |

Lease Liabilities

| | | |
|---------------------------------------|-----------|------------------|
| At December 31, 2020 | \$ | 130,250 |
| Lease additions | | 1,694,587 |
| Interest expense on lease liabilities | | 56,497 |
| | | 1,881,334 |
| Less: current portion | | (681,817) |
| At December 31, 2021 | \$ | 1,199,517 |
| At December 31, 2021 | \$ | 1,881,334 |
| Interest expense on lease liabilities | | 183,366 |
| Lease payments | | (150,185) |
| | | 1,914,515 |
| Less: current portion | | (612,242) |
| At June 30, 2022 | \$ | 1,302,273 |

Refer to Note 15 Commitments for the remaining minimum future lease payments, excluding estimated operating costs.

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9. Convertible NotesDuring the year ended December 31, 2021:

On January 5, 2021, the Company entered into an unsecured convertible note agreement for proceeds of \$300,000. The convertible note has a maturity date of August 22, 2021 and bears interest at 10% per annum. The convertible note is convertible into units consisting of one common share of the Company and one half share purchase warrant ("Conversion Shares"). The convertible notes are convertible to Conversion Shares if the Company's shares are listed on a recognized stock exchange ("Listing Event") or all of the shares of the Company are acquired by a purchaser within 18 months from September 25, 2020 ("Conversion Period"). Upon this occurring, the holder may elect to convert all or any portion of the outstanding loan balance into Conversion Shares of the Company at a conversion price at 30% discount from the listing price at the time of the Listing Event for the common shares. Each common share purchase warrant entitles the holder to purchase a further common share of the Company at 25% premium of the listing price at the time of the Listing Event.

On January 5, 2021, the Company amended one of the convertible note agreements entered into on December 15, 2020 with a director and officer of the Company to increase the principal amount by \$271,186 from \$215,417 to \$486,603, in exchange for the outstanding due to shareholder balance.

On the issuance date of the convertible notes, the fair value of the host liabilities was determined to be \$237,284 and the embedded derivative liability was valued at \$334,027, using the Black-Scholes Option Pricing Model and based on certain risks and assumptions, as set out below.

| Value host liability | Total |
|--|--------------|
| Value host liability, January 1, 2020 | \$ - |
| Additions | 505,379 |
| Accretion and interest expense | 22,901 |
| Value of convertible notes, December 31, 2020 | 528,280 |
| Additions | 237,284 |
| Accretion and interest expense | 36,606 |
| Conversion of notes payable | (802,170) |
| Value of convertible notes, December 31, 2021 and June 30, 2022 | \$ - |

| Fair value of embedded derivative liability | Total |
|---|--------------|
| Fair value of embedded derivative liability, January 1, 2020 | \$ - |
| Additions | 1,272,718 |
| Fair value adjustment | (51,045) |
| Fair value of embedded derivative liability, December 31, 2020 | 1,221,673 |
| Additions | 334,027 |
| Fair value adjustment | 51,144 |
| Conversion of notes payable | (1,606,844) |
| Fair value of embedded derivative liability, December 31, 2021 and June 30, 2022 | \$ - |

9. Convertible Notes (cont'd)

The inputs used to fair value the embedded derivative using the Black Scholes Option Pricing Model are as follows:

| | September 25, 2020 | December 15, 2020 | December 31, 2020 | January 5, 2021 | March 15, 2021 |
|---------------------------------|-----------------------|----------------------|----------------------|--------------------|-------------------|
| Risk free rate | 0.22% | 0.22% | 0.22% | 0.19% | 0.31% |
| Expected dividend yield | 0% | 0% | 0% | 0% | 0% |
| Expected stock price volatility | 149.96% | 104.81% | 101.14% | 80.19% | 84.65% |
| Weighted average expected life | 1.42 years | 1.2 years | 1.15 years | 0.63 years | 0.98 years |
| Weighted share price | \$0.50 | \$0.50 | \$0.50 | \$0.50 | \$0.50 |

The host liability of the convertible note will be amortized at cost, with the embedded derivative liability measured at fair value through profit and loss.

During the year ended December 31, 2021, all convertible debt, plus interest of \$2,409,014 were converted and settled by issuing 6,882,898 units. Each unit consisted of one common share, and one half of a common share purchase warrant. Each whole warrant is convertible into one common share of the resulting entity at \$0.625, for two years.

10. Loans Payable

During the year ended December 31, 2018, the Company obtained a vehicle loan of \$47,549. The loan is secured against the vehicle, bears interest at 7.65% and has monthly payments due of \$835 and is due on November 1, 2024. During the year ended, December 31, 2021, the Company fully repaid the principal and interest balance totaling \$34,374.

On December 31, 2021, the Company entered into a loan agreement for \$300,000 from a former director of the Company. This amount advanced bears interest of 25% per year, compounded annually, and is due on or before December 31, 2022. The total loan proceeds of \$300,000 were received by the Company as of June 30, 2022. The Company recorded interest expense of \$37,192 during the six months ended June 30, 2022. The loan has a balance of \$337,192 as at June 30, 2022 (December 31, 2021 - \$25,000). The loan is secured by a general security agreement.

During the six months ended June 30, 2022, the Company received \$50,000 loan from a former director. The loan is non-interest bearing, unsecured, and due on demand

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11. Share Capital

(a) Authorized:

Unlimited common shares without par value

(b) Issued – common shares

The Company issued the following common shares during the six months ended June 30, 2022:

- (i) On February 28, 2022, the Company issued 100,000 common shares for the exercise of warrants for total proceeds of \$5,000. The fair value associated with these warrants was \$45,750.
- (ii) On March 2, 2022, the Company issued 1,749,999 performance shares to advisors valued at \$0.25 per share, for a total value of \$437,500.
- (iii) On March 3, 2022, the Company issued 50,000 common shares for the exercise of warrants for total proceed of \$2,500. The fair value of these warrants was \$22,875.
- (iv) On April 25, 2022, the Company issued 100,000 common shares for the exercise of warrants for total proceed of \$5,000. The fair value of these warrants was \$45,750.
- (v) On April 25, 2022, the Company issued 150,000 common shares for the exercise of warrants for total proceed of \$7,500. The fair value of these warrants was \$68,625.
- (vi) On June 9, 2022, the Company issued 211,231 common shares for the exercise of options for total proceed of \$15,842. The fair value of these options was \$13,379.
- (vii) On June 16, 2022, the Company issued 205,248 common shares for the exercise of options for total proceed of \$15,394. The fair value of these options was \$13,000.

The Company issued the following common shares during the year ended December 31, 2021:

- (i) On March 9, 2021, the Company acquired all of the issued and outstanding shares of Nabati Foods Inc. in exchange for the issuance of 14,000,000 common shares of the Company as detailed in Note 4.
- (ii) On March 9, 2021, the Company completed a financing of 15,461,000 special warrants at \$0.50 per special warrant, for total proceeds of \$7,730,500. On July 10, 2021, each special warrant was converted into one common share of the Company at no additional cost. In connection with this financing, the Company incurred \$574,701 in cash costs and issued 856,320 agent warrants valued at \$259,004. Each agent warrant is exercisable into a common share at a price of \$0.50 until March 9, 2023. The value of the agent warrants was determined to be \$259,004 using the Black-Scholes Option pricing model with the following assumptions: Volatility of 120%, expected life of 2 years, and risk-free discount rate of 0.27%.
- (iii) On March 15, 2021, the Company issued 1,749,999 performance shares to advisors valued at \$0.50 per share, for a total value of \$875,000.
- (iv) On June 17, 2021, 323,000 special warrants deemed issued on the RTO were converted into 323,000 common shares of the Company at no additional cost.

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11. Share Capital (cont'd)

- (vi) On September 1, 2021, the Company received \$245,000 upon the voluntary amendment of January 14, 2021 private placement unit offering completed by 1279006 B.C. Ltd.
- (vii) On October 4, 2021, the Company granted 500,000 restricted share units ("RSU's") of the Company to a director of the Company. The RSU's vest 50% of October 4, 2022 and 50% of October 4, 2023, and expire on October 4, 2023. During the year ended December 31, 2021, the Company recognized share-based compensation of \$74,137 with respect to the 500,000 RSU's vesting during the year.
- (viii) The Company issued 442,336 common shares for the exercise of warrants for total proceeds of \$41,168. The fair value associated with these warrants was \$12,805.
- (ix) The Company issued 6,882,898 units to settle its convertible debt, plus interest of \$2,409,014 (Note 9). Each unit consisted of one common share, and one half of a common share purchase warrant.

Each whole warrant is convertible into one common share of the resulting entity at \$0.625, for two years. The value of the warrants was determined to be \$nil.

(c) Warrants

The following table summarizes the common share purchase warrant activity during the six months ended June 30, 2022:

| | Warrants | Weighted-average exercise price (\$) |
|------------------------------|------------|--------------------------------------|
| Balance, December 31, 2020 | - | - |
| Issued – private placement | 7,000,000 | 0.050 |
| Issued – agent's warrants | 856,320 | 0.500 |
| Issued – convertible note | 3,441,448 | 0.625 |
| Exercised – agent's warrants | (442,336) | 0.500 |
| Balance, December 31, 2021 | 10,855,432 | 0.250 |
| Exercised | (400,000) | 0.050 |
| Balance, June 30, 2022 | 10,455,432 | 0.260 |

No common share purchase warrants were issued or outstanding during the six months June 30, 2022.

As at June 30, 2022, the Company has the following warrants outstanding:

| Number of warrants | Exercise price | Expiry date | Remaining life (years) |
|--------------------|----------------|------------------|------------------------|
| 6,600,000 | \$0.050 | January 14, 2023 | 0.54 |
| 413,984* | \$0.500 | March 9, 2023 | 0.69 |
| 3,441,448 | \$0.625 | March 15, 2023 | 0.71 |
| 10,455,432 | \$0.260 | | 0.60 |

*Agent's warrants

(d) Stock Options

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of grant, and the exercise price of each option is equal to or above the market price of the common shares

11. Share Capital (cont'd)

(d) Stock options (cont'd)

on the grant date. Options granted under the Plan including the vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The following table summarizes the stock option activity during the six months ended June 30, 2022:

| | Options | Weighted- average exercise price (\$) |
|----------------------------|-----------|---|
| Balance, December 31, 2020 | - | - |
| Granted | 4,509,390 | 0.500 |
| Balance, December 31, 2021 | 4,509,390 | 0.500 |
| Granted | 2,900,461 | 0.075 |
| Exercised | (416,479) | 0.075 |
| Balance, June 30, 2022 | 6,993,372 | 0.324 |

No common stock options were issued during the six months ended June 30, 2022.

As at June 30, 2022, the Company has the following warrants outstanding:

| Number of options outstanding | Number of options exercisable | Exercise price | Expiry date | Remaining life (years) |
|----------------------------------|-------------------------------------|----------------|-----------------|---------------------------|
| 4,509,390 | 4,109,390 | \$0.500 | October 4, 2026 | 4.27 |
| 2,483,982 | 2,483,982 | \$0.075 | June 8, 2027 | 4.94 |
| 6,993,372 | 6,593,372 | \$0.349 | | 4.51 |

During the year ended December 31, 2021, the Company granted 4,509,390 stock options to officers, directors, and consultants, of which 4,109,390 options vested immediately and 400,000 options will vest over four years with 25% vesting at the end of each year. Total compensation recorded for the option issued during the year ended December 31, 2021 was \$2,894,129. Compensation recorded during the six months ended June 30, 2022 was \$68,327.

On June 8, 2022, the Company granted 2,900,461 stock options to certain directors and officers of the Company. The fair value of these options was \$183,711.

The fair value of the stock options granted were estimated using the Black-Scholes Option Pricing Model with the following assumptions:

| | December 31, 2021 | June 8, 2022 |
|---------------------------------|-------------------|--------------|
| Risk free rate | 1.06% | 3.17% |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 114.29% | 123.20% |
| Weighted average expected life | 5 years | 5 years |
| Exercise price | \$0.50 | \$0.075 |

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For the six months ended June 30, 2022 and 2021

(Unaudited - Expressed in Canadian Dollars)

12. Related Party Transactions

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that its key management personnel are the members of the Company's current and former Board of Directors and its executive officers.

Key management remuneration:

During the six months June 30, 2022, the remuneration of the key management personnel was as follows:

| | | June 30, 2022 | | June 30, 2021 |
|-----------------------------|----|----------------------|----|---------------|
| Salaries | \$ | 36,016 | \$ | 48,878 |
| Share-based payment expense | | 120,373 | | - |
| | \$ | 156,388 | \$ | 48,878 |

Related party transactions and balances:

As at June 30, 2022, the Company owed \$190,020 (December 31, 2021 - \$50,020) to the CEO and director of the Company, the amount was non-interest bearing and payable upon demand.

As at June 30, 2022, included in trade and other payables was \$67,447 (December 31, 2021 - \$45,546) owing to the CEO and director of the Company.

On December 15, 2020, the Company settled \$1,528,322 of due on demand loans to the CEO and shareholders of the Company by issuing convertible notes in exchange for the balance owing. During the year ended December 31, 2021, the Company settled an additional \$271,186 due to the CEO by issuing convertible notes (Note 9). On February 3, 2021, the Company issued 1,415,962 common shares and 709,781 warrants to the CEO of the Company for the conversion of note payable of \$486,603 plus interest accrual of \$8,984.

On December 31, 2021, the Company entered into a loan agreement for \$300,000 from a former director of the Company. This amount advanced bears interest of 25% per year, compounded annually, and is due on or before December 31, 2022. The total loan proceeds of \$300,000 were received by the Company as of June 30, 2022. The Company recorded interest expense of \$37,192 during the six months ended June 30, 2022. The loan has a balance of \$337,192 as at June 30, 2022 (December 31, 2021 - \$25,000). The loan is secured by a general security agreement.

During the six months ended June 30, 2022, the Company paid salary of \$36,016 (2021 - \$48,878) to related parties.

During the year ended December 31, 2021, the Company granted 2,250,000 options to directors and officers, resulting in share-based compensation expense of \$1,566,424. (Note 11)

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13. Financial Instruments

The Company's financial instruments consist of the following:

| Financial assets / liabilities | Classification |
|---------------------------------------|-----------------------|
| Cash | FVTPL |
| Trade receivables | Amortized cost |
| Deposits | Amortized cost |
| Trade and other payables | Amortized cost |
| Due to shareholders | Amortized cost |
| Loans payable | Amortized cost |
| Convertible notes payable | Amortized cost |
| Derivative liability | FVTPL |
| Lease liabilities | Amortized cost |

Fair value hierarchy:

The Company applies the following fair value hierarchy for financial instrument classified as FVTP, which prioritizes the inputs used in the valuation methodologies in measuring fair value into three levels.

The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As at June 30, 2022 and December 31, 2021, cash is recorded at fair value, using level 1 inputs. The derivative liability was recorded at fair value, using level 2 inputs, as discussed in Note 9.

The fair values of trade receivables, deposits, trade and other payables, due to shareholders, loans payable, convertible notes payable, and lease liabilities approximate their carrying amounts, due to their short terms to maturity, and market interest rates.

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and market risk.

(a) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The risk for cash is mitigated by holding these instruments with highly rated Canadian financial institutions. Trade and other receivables primarily consist of trade receivables from sale of goods and sales tax recoverable from the Canadian Revenue Agency. The maximum credit risk exposure associated with cash and trade and others receivable is limited to the total carrying value.

(b) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it has sufficient liquidity to meet liabilities when due. As at June 30, 2022, the Company had a cash balance of \$14,658 (December 31, 2021 - \$24,997)

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13. Financial Instruments (cont'd)

and current liabilities of \$3,829,654 (December 31, 2021 - \$2,623,988). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company does not have enough sufficient liquidity and has ceased operations subsequent to the period ended June 30, 2022. The Company plans to raise funds from private placement which will be used to settle the Company's liabilities.

(c) 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.

(i) Interest rate risk

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The interest rate risk on bank deposits is insignificant as the deposits are short term. A 10% change in the LIBOR rates will result in an insignificant impact on the consolidated statements of loss and comprehensive loss. The loans payable are subject to fixed interest rates; therefore, the Company is not exposed to interest rate risk on these financial liabilities.

(ii) Foreign currency risk

As at June 30, 2022 and December 31, 2021, the Company's expenditures are mainly in Canadian dollars. Any future equity raised is expected to be predominantly in Canadian dollars. The Company believes it has no significant foreign exchange rate risk.

The Company holds insignificant balances in foreign currencies which would give rise to exposure to foreign exchange rate risk.

14. Capital Management

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of share capital and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources for its operations and to fund the identification and evaluation of potential acquisitions. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity or by securing strategic partners.

The Company monitors capital on the basis of maintaining sufficient cash flow to comply with financial obligations. During the year, the Company's strategy, which was unchanged from the prior year, was to issue sufficient additional shares from treasury to meet all such obligations.

The Company is not subject to any externally imposed capital requirements. There have been no changes to the Company's management of capital during the year.

15. Commitments

On August 9, 2014, the Company entered into a five-year lease agreement. On August 26, 2019, the Company has extended the lease term which ends on September 30, 2022.

On December 4, 2020, the Company entered into a five-year lease agreement to lease a premise to expand their food production facility until 2025.

On October 1, 2021, the Company entered into a five-year lease agreement to lease two additional bays for future expansion of the food production facility (Facility B) until 2026.

The total minimum future payments for long term leases are as follows:

| Lease Period | Amount |
|--------------|---------------------|
| 2022 | \$ 813,883 |
| 2023 | 545,915 |
| 2024 | 425,621 |
| 2025 | 416,576 |
| 2026 | 44,580 |
| Thereafter | - |
| | <u>\$ 2,246,575</u> |

16. Supplemental Cash Flow

| | June 30, 2022 | June 30, 2021 |
|-------------------------------|------------------|------------------|
| Exercise of convertible notes | \$ - | \$ 2,315,170 |
| Lease liabilities | \$ - | \$ 52,167 |

17. Re-valuation of Assets

Subsequent to the period ended June 30, 2022, the Company ceased all operations in Canada. As a result, the Company's assets have been recorded at their liquidation value.

| | Pre re-valuation amount | Loss on re- valuation | Adjusted value |
|--------------------------------|----------------------------|--------------------------|-------------------|
| Cash | \$ 24,997 | \$ - | \$ 24,997 |
| Trade and other receivables | 432,526 | - | 432,526 |
| Inventory | 245,654 | - | 245,654 |
| Deposit | 179,603 | (168,589) | 11,014 |
| Property, plant, and equipment | 1,177,127 | (1,177,127) | - |
| Right of use asset | 1,888,282 | (1,888,282) | - |
| | <u>\$ 3,948,189</u> | <u>\$ (3,233,998)</u> | <u>\$ 714,191</u> |

During the six months ended June 30, 2022, the Company recorded loss on re-valuation of its property, plant and equipment of \$59,452. (Note 7) The Company recovered a total of \$233,592 from receipt of security deposits and sale of property, plant and equipment which were previously written off in 2021. The Company recorded the recovery in the statements of loss and comprehensive loss during the six months ended June 30, 2022.