

**NEPRA FOODS INC.**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**  
**(EXPRESSED IN CANADIAN DOLLARS)**

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

The accompanying unaudited condensed consolidated interim financial statements for Nepra Foods Inc. (the “Company”) have been prepared by management in accordance with International Financial 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.

**NEPRA FOODS INC.**

## Condensed Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	June 30, 2022	December 31, 2021
<b>ASSETS</b>			
Current assets			
Cash		\$ 570,563	\$ 1,463,859
Restricted cash		70,910	69,843
Accounts receivable	5	730,793	590,243
Prepaid expenses and deposits	6	937,789	958,615
Inventory	7	2,710,394	1,815,796
Due from related party	18	27,560	9,418
		5,048,009	4,907,774
Property and equipment	8, 18	500,070	447,522
Intangible assets	9	19,054	20,693
Deferred acquisition costs	10	16,723	134,551
Right-of-use assets	11	3,981,066	2,299,631
Long-term deposit		241,089	107,591
<b>Total assets</b>		<b>\$ 9,806,011</b>	<b>\$ 7,917,762</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)</b>			
Current liabilities			
Accounts payable and accrued liabilities	13, 18	\$ 827,381	\$ 1,216,484
Loan payable – current portion	14	28,691	15,257
Lease liability – current portion	12, 18	1,144,856	138,647
Convertible notes	15	-	31,837
Deferred revenue	16	42,333	267,921
		2,043,261	1,670,146
Lease liability	12, 18	3,194,857	2,443,946
Loans payable	14, 18	373,924	388,187
<b>Total liabilities</b>		<b>5,612,042</b>	<b>4,502,279</b>
Shareholders' equity (deficiency)			
Share capital	17, 18	14,235,369	10,608,472
Reserves	17	1,585,204	666,393
Accumulated other comprehensive income (loss)		41,747	(45,281)
Deficit		(11,668,351)	(7,814,101)
<b>Total shareholders' equity (deficiency)</b>		<b>4,193,969</b>	<b>3,415,483</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 9,806,011</b>	<b>\$ 7,917,762</b>

Nature of operations and going concern (Note 1)

Subsequent events (Note 22)

**Approved on behalf of the Board**

\_\_\_\_\_  
*"David Wood"* Director                      *"Alex McAulay"* Director

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

**NEPRA FOODS INC.**

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	For the six months ended June 30, 2022		For the three months ended June 30, 2022	
		2022	2021	2022	2021
<b>Revenue</b>					
Sales	21	\$ 3,311,792	\$ 3,060,820	\$ 1,233,680	\$ 1,686,323
Consulting		-	129,678	-	63,837
		3,311,792	3,190,498	1,233,680	1,750,160
Cost of sales	7, 8, 11	2,796,035	2,566,851	800,115	1,413,818
		\$ 515,757	623,647	\$ 433,565	336,342
<b>Expenses</b>					
Accretion	14	802	717	403	353
Amortization	8, 9, 11	405,375	123,086	328,061	61,477
Bad debt		1,907	-	1,907	-
Consulting		113,834	58,041	74,772	6,649
General and administrative		1,396,964	301,708	1,033,299	174,968
Professional fees	18	306,792	470,673	229,005	281,842
Research and development		96,743	60,837	20,367	30,788
Salaries and benefits	18	1,227,923	889,924	640,400	514,927
Share-based payments	17, 18	591,648	-	188,689	-
Travel		63,495	32,517	16,936	13,715
		4,205,483	1,937,503	2,533,839	1,084,719
<b>Net loss before other items</b>		\$ (3,689,726)	\$ (1,313,856)	\$ (2,100,274)	\$ (748,377)
<b>Other items</b>					
Foreign exchange		2,913	4,520	1,482	4,641
Interest income		6,491	4,892	3,706	2,438
Change in fair value of convertible debt		(216)	24,037	-	277,336
Finance costs	12, 14, 15, 18	(177,118)	(210,252)	(102,463)	(111,844)
Gain on fixed asset disposition		3,406	-	3,004	-
Transaction expense		-	(51,907)	-	(51,907)
<b>Net loss</b>		\$ (3,854,250)	\$ (1,542,566)	\$ (2,194,545)	\$ (627,713)
<b>Other comprehensive income (items that may be reclassified to profit or loss)</b>					
Exchange difference on translation between presentation and functional currencies		87,028	6,356	129,717	965
<b>Comprehensive loss</b>		\$ (3,767,222)	\$ (1,536,210)	\$ (2,064,828)	\$ (626,748)
Loss per share, basic and diluted		\$ (0.09)	\$ (0.14)	\$ (0.05)	\$ (0.04)
Weighted average number of shares outstanding, basic and diluted		42,015,406	11,087,631	46,973,306	14,926,676

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

**NEPRA FOODS INC.**

## Condensed Consolidated Interim Statements of Cash Flows

For the Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

	<b>2022</b>		<b>2021</b>	
<b>Operating activities</b>				
Net loss	\$	(3,854,250)	\$	(1,542,566)
Adjustments for non-cash items				
Amortization		417,550		131,430
Share-based payments		591,648		-
Bad debt		1,907		-
Accretion		802		717
Interest		43,587		187,060
Change in fair value of convertible notes		216		(24,037)
Gain on fixed asset disposition		(3,406)		-
Transaction expense		-		51,907
Foreign exchange		-		(1,866)
Changes in non-cash working capital items:				
Accounts receivable		(130,004)		(501,253)
Prepaid expenses and deposits		(97,936)		65,133
Inventory		(851,560)		(702,844)
Accounts payable and accrued liabilities		(458,078)		824,878
Due from related party		(17,750)		-
Deferred revenue		(226,519)		(3,225)
<b>Net cash used in operating activities</b>		<b>(4,583,793)</b>		<b>(1,514,666)</b>
<b>Investing activity</b>				
Purchase of equipment		(144,139)		(172,404)
Equipment disposed		91,743		-
Cash acquired in reverse takeover		-		251
Deferred acquisition cost refund		118,234		-
<b>Net cash used in investing activity</b>		<b>65,838</b>		<b>(172,153)</b>
<b>Financing activities</b>				
Proceeds from issuance of common shares		3,921,268		443,642
Repayment of lease liability		(326,968)		(70,000)
Loan repayments		(19,306)		(9,645)
Proceeds from convertible notes		-		1,049,519
<b>Net cash provided by financing activities</b>		<b>3,574,994</b>		<b>1,413,516</b>
<b>Net increase in cash</b>		<b>(942,961)</b>		<b>(273,303)</b>
<b>Effect of change in foreign exchange rates on cash</b>		<b>50,732</b>		<b>(41,666)</b>
<b>Cash, beginning</b>		<b>1,533,702</b>		<b>492,976</b>
<b>Cash, ending</b>	\$	<b>641,473</b>	\$	<b>178,007</b>
<b>Cash</b>	\$	570,563	\$	178,007
<b>Restricted cash</b>		70,910		-
<b>Cash, ending</b>	\$	<b>641,473</b>	\$	<b>178,007</b>

Supplemental Disclosure with Respect to Cash Flows (Note 19)

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

**NEPRA FOODS INC.**

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

For the Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

	Share capital			Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity (deficiency)
	Common shares*	Class A shares*	Amount				
<b>Balance, December 31, 2020</b>	<b>3,655,711</b>	<b>273,468</b>	<b>\$ 829,358</b>	<b>\$ -</b>	<b>\$ 5,160</b>	<b>\$ (1,134,232)</b>	<b>\$ (299,714)</b>
Shares issued for settlement of debt	997,426	-	39,361	-	-	-	39,361
Shares issued in private placement	9,999,971	-	443,642	-	-	-	443,642
Reverse takeover	100	-	251	-	-	-	251
Currency translation adjustment	-	-	-	-	6,356	-	6,356
Net loss	-	-	-	-	-	(1,542,556)	(1,542,566)
<b>Balance, June 30, 2021</b>	<b>14,653,208</b>	<b>273,468</b>	<b>\$ 1,312,612</b>	<b>\$ -</b>	<b>\$ 11,516</b>	<b>\$ (2,676,566)</b>	<b>\$ (1,352,670)</b>
<b>Balance, December 31, 2021</b>	<b>36,554,944</b>	<b>273,468</b>	<b>\$ 10,608,472</b>	<b>\$ 666,393</b>	<b>\$ (45,281)</b>	<b>\$ (7,814,101)</b>	<b>\$ 3,415,483</b>
Shares issued in prospectus offering	10,000,000	-	3,463,955	457,313	-	-	3,921,268
Shares issued for convertible debt	43,932	-	32,792	-	-	-	32,792
Vesting and issuance of restricted share units	-	-	-	244,906	-	-	244,906
Conversion of restricted share units	185,000	-	130,150	(130,150)	-	-	-
Share-based payments	-	-	-	346,742	-	-	346,742
Currency translation adjustment	-	-	-	-	87,028	-	87,028
Net loss	-	-	-	-	-	(3,854,250)	(3,854,250)
<b>Balance, June 30, 2022</b>	<b>46,783,876</b>	<b>273,468</b>	<b>\$ 14,235,369</b>	<b>\$ 1,585,204</b>	<b>\$ 41,747</b>	<b>\$ (11,668,351)</b>	<b>\$ 4,193,969</b>

\*The number of shares outstanding before the RTO have been restated to reflect the effect of issuing 0.873288 RTO shares for each share outstanding.

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

## NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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### 1. Nature of Operations and Going Concern

Nepra Foods Inc. (“Nepra” or the “Company”) was incorporated on November 27, 2020 under the provisions of the under the British Columbia Business Corporations Act. The Company operates as a vertically integrated healthy plant-based food and speciality ingredient company supporting allergen free and functional food brands. The Company’s head office is located at 7025 S. Revere Parkway, Unit 100, Centennial, Colorado, USA 80112. The Company’s registered and records office is located at Suite 1500, 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7. The Company’s common shares are listed for trading on the Canadian Securities Exchange (“CSE”) under the symbol “NPRA”. The Common Shares are also listed on the OTCQB under the trading symbol “NPRFF” and on the FSE under the trading symbol “2P6”.

On April 16, 2021, the Company completed the reverse take over (“RTO”) of Nepra Foods, Ltd. (“Nepra US”). Nepra US was incorporated as a limited liability company (“LLC”) on August 15, 2019 under the provisions of the Colorado Revised Status and on November 1, 2020, Nepra US converted from a LLC to a corporation. These condensed consolidated interim financial statements are presented as a continuation of Nepra US as the deemed acquirer.

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During the six months ended June 30, 2022 the Company had negative cash flows from operations of \$4,583,793, and as at June 30, 2022, had an accumulated deficit of \$11,668,351. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to raise financing and generate profits and positive cash flows from operations in order to cover its operating costs. From time to time, the Company generates working capital to fund its operations by raising additional capital through equity or debt financing. However, there is no assurance it will be able to continue to do so in the future. These condensed consolidated interim financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

### 2. Basis of Presentation, Functional Currency, and Basis of Combination and Consolidation

#### Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all the information required for a complete set of financial

## **NEPRA FOODS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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statements prepared in accordance with International Financial Reporting Standards (IFRSs). As such, they must be read in conjunction with the annual audited consolidated financial statements for the period ended December 31, 2021 and the notes thereto. However, selected notes are included that are significant to understanding the Company's financial position and performance since the last annual consolidated financial statements for the year ended December 31, 2021. These condensed consolidated interim financial statements are presented in Canadian dollars. The functional currency of the Company is the Canadian dollar and the functional currency of its wholly-owned subsidiaries is the US dollar. The amounts in the tables are expressed in Canadian dollars, unless otherwise stated.

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

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed consolidated interim financial statements incorporate the accounts of the Company and its controlled subsidiaries from the date of acquisition. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company's wholly owned subsidiaries include: Nepra Foods, Ltd., incorporated August 15, 2019, Gluten Free Baking Solutions, LLC ("GFBS"), incorporated on August 10, 2016, and Total Blending Solutions, Ltd. ("TBS"), incorporated on November 25, 2019.

### **3. Significant Accounting Policies**

The significant accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with the accounting policies disclosed in Note 3 of the audited financial statements for the year ended December 31, 2021. These condensed consolidated interim statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2021.

#### **Accounting standards issued but not yet effective**

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's condensed consolidated interim financial statements.

### **4. Critical Accounting Estimates and Judgements**

In preparing these condensed consolidated interim financial statements, management has made judgments, estimates and assumptions that affect the applicable of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Management reviews these estimates and underlying assumptions on an ongoing basis, based on experience



**NEPRA FOODS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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. In preparing these condensed consolidated interim financial statements, the significant estimates and critical judgments were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2021.

**5. Accounts Receivable**

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
Trade receivables	\$	714,260	\$	592,148
Sales tax receivable		20,401		-
Expected credit losses		(3,868)		(1,905)
Net accounts receivable	\$	<b>730,793</b>	\$	<b>590,243</b>

As at June 30, 2022, the Company had net accounts receivable of \$730,793 (December 31, 2021 - \$590,243). As at June 30, 2022, the Company has recorded an allowance for expected credit losses of \$3,868 (December 31, 2021 - \$1,905).

**6. Prepaid expenses and deposits**

Prepays and deposits is composed of the following amounts:

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
Deposit on inventory	\$	709,019	\$	850,719
Insurance		31,231		89,321
Prepaid professional fees and other		197,539		18,575
	\$	<b>937,789</b>	\$	<b>958,615</b>

**7. Inventory**

Inventory consists primarily of raw materials and finished goods.

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
Raw materials	\$	12,980	\$	201,323
Work-in-progress		946		13,530
Finished goods		2,696,468		1,600,943
	\$	<b>2,710,394</b>	\$	<b>1,815,796</b>

During the six months ended June 31, 2022, the Company sold inventory with a value of \$2,796,035 (2021 - \$1,148,981) and incurred inventory write offs of \$nil (2021 - \$4,052) which are included in cost of sales.

**NEPRA FOODS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

**8. Property and Equipment**

	Furniture and equipment		Warehouse equipment		Leasehold improvements		Computer equipment		Total
<b>Cost</b>									
Balance, December 31, 2020	\$	8,138	\$	62,679	\$	-	\$	-	\$ 70,817
Additions		161,707		146,789		54,121		52,746	415,363
Foreign exchange adjustment		2,060		1,671		699		682	5,112
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>171,905</b>	<b>\$</b>	<b>211,139</b>	<b>\$</b>	<b>54,820</b>	<b>\$</b>	<b>53,428</b>	<b>\$ 491,292</b>
Additions		58,509		56,500		57,360		3,074	175,443
Dispositions		(72,976)		(18,767)		-		-	(91,743)
Foreign exchange adjustment		2,424		3,753		1,638		859	8,674
<b>Balance, June 30, 2022</b>	<b>\$</b>	<b>159,862</b>	<b>\$</b>	<b>252,625</b>	<b>\$</b>	<b>113,818</b>	<b>\$</b>	<b>57,361</b>	<b>\$ 583,666</b>
<b>Accumulated Amortization</b>									
Balance, December 31, 2020	\$	4,882	\$	2,239	\$	-	\$	-	\$ 7,121
Amortization		9,503		19,541		4,860		2,302	36,206
Foreign exchange adjustment		106		244		63		30	443
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>14,491</b>	<b>\$</b>	<b>22,024</b>	<b>\$</b>	<b>4,923</b>	<b>\$</b>	<b>2,332</b>	<b>\$ 43,770</b>
Amortization		16,098		14,026		6,552		5,350	42,026
Dispositions		(3,406)		-		-		-	(3,406)
Foreign exchange adjustment		398		532		166		110	1,206
<b>Balance, June 30, 2022</b>	<b>\$</b>	<b>27,581</b>	<b>\$</b>	<b>36,582</b>	<b>\$</b>	<b>11,641</b>	<b>\$</b>	<b>7,792</b>	<b>\$ 83,596</b>
<b>Net Book Value</b>									
At December 31, 2021	\$	157,414	\$	189,115	\$	49,897	\$	51,096	\$ 447,522
<b>At June 30, 2022</b>	<b>\$</b>	<b>132,281</b>	<b>\$</b>	<b>216,043</b>	<b>\$</b>	<b>102,177</b>	<b>\$</b>	<b>49,569</b>	<b>\$ 500,070</b>

Amortization of equipment used in production is included in the cost of inventory. During the six months ended June 30, 2022, amortization of \$12,175 (2021 - \$3,305) was included in the cost of inventory.

**9. Intangible Assets**

	Trademark		Software		Total
Balance, December 31, 2020	\$	-	\$	-	\$ -
Additions		11,276		9,154	20,430
Foreign exchange adjustment		145		118	263
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>11,421</b>	<b>\$</b>	<b>9,272</b>	<b>\$ 20,693</b>
Amortization		(381)		(1,547)	(1,928)
Foreign exchange adjustment		169		120	289
<b>Balance, June 30, 2022</b>	<b>\$</b>	<b>11,209</b>	<b>\$</b>	<b>7,845</b>	<b>\$ 19,054</b>

**NEPRA FOODS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Six Months Ended June 30, 2022 and 2021

(Expressed in Canadian Dollars)

(Unaudited)

**10. Deferred Acquisition Costs**

As of December 31, 2021, the Company had advanced \$134,551 in down payments and deposits to acquire production and manufacturing equipment to various suppliers. During the six months ended June 30, 2022, the Company decided to lease some of this equipment under a master lease agreement as opposed to purchasing the equipment (Notes 11 and 12). Consequently, the Company received a refund for the previously issued deposits of \$117,793. As of June 30, 2022, the Company a total of \$16,723 remained in deferred acquisition costs.

<b>At December 31, 2020</b>	<b>\$</b>	<b>-</b>
Deposits and down payments		132,835
Foreign exchange adjustment		1,716
<b>At December 31, 2021</b>	<b>\$</b>	<b>134,551</b>
Refunds		(118,234)
Foreign exchange adjustment		406
<b>At June 30, 2022</b>	<b>\$</b>	<b>16,723</b>

**11. Right-of-use Assets****Equipment**

On October 16, 2017, the Company entered into an equipment lease agreement. The lease term commenced November 1, 2017 and ends on October 1, 2022. The Company is committed to paying a monthly rental fee of USD\$1,044 (CAD\$1,395) to a related party (Note 18).

During the period-ended June 30, 2022, the Company entered into a master lease agreement (the “Master Lease Agreement”) for various pieces of production and manufacturing equipment up to a total cost of USD \$1,200,000. As part of the agreement, the Company paid a deposit of \$122,493 (USD \$97,956) for the minimum lease term of 24 months. The Company is committed to paying a monthly rental fee of USD\$69,600.

**Building**

The Company entered into a lease agreement for the building located at 7025 South Revere Parkway, Ste. 100, Centennial, Colorado 80112. The lease includes annual step-up payments and commences January 1, 2021 and expires on June 30, 2031. In connection with the lease agreement, the Company paid a security deposit of \$146,592 (USD\$116,409), to be repaid as follows: \$97,728 (USD\$77,606) after 24 months and \$48,864 (USD\$38,803) upon completion of the lease. The deposit has been discounted using an incremental borrowing rate of 10% per annum. A reconciliation of the long-term deposit is as follows:

<b>At December 31, 2020</b>	<b>\$</b>	<b>148,340</b>
Adjustment to fair value		(50,001)
Interest income		10,068
Foreign exchange adjustment		(816)
<b>At December 31, 2021</b>	<b>\$</b>	<b>107,591</b>
Interest income		5,490
Foreign exchange adjustment		1,730
<b>At June 30, 2022</b>	<b>\$</b>	<b>114,811</b>

**NEPRA FOODS INC.**

Notes to the Condensed Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

(Unaudited)

The Company's right-of-use assets consists of a lease for equipment and a lease for a building.

<b>Right-of-use assets</b>	<b>Equipment</b>	<b>Building</b>	<b>Total</b>
<b>At December 31, 2020</b>	\$ <b>22,958</b>	\$ -	\$ <b>22,958</b>
Additions	-	2,509,395	2,509,395
Amortization expense	(12,319)	(237,899)	(250,218)
Foreign exchange adjustment	(241)	17,737	17,496
<b>At December 31, 2021</b>	\$ <b>10,398</b>	\$ <b>2,289,233</b>	\$ <b>2,299,631</b>
Additions	1,967,802	-	1,967,802
Amortization expense	(256,325)	(120,643)	(376,968)
Foreign exchange adjustment	57,316	33,285	90,601
<b>At June 30, 2022</b>	\$ <b>1,779,191</b>	\$ <b>2,201,875</b>	\$ <b>3,981,066</b>

A portion of the amortization of equipment and building right-of-use assets is included in the cost of inventory. During the six months ended June 30, 2022, amortization of \$1,516 (2021 - \$nil) was included in the cost of inventory.

**12. Leases**

The lease liability of the equipment which commenced on October 16, 2017 has been calculated using an incremental borrowing rate of 10% per annum. The lease liability of the building has been calculated using an incremental borrowing rate of 10% per annum. The lease liability of the Master Lease Agreement has been calculated using the rate implicit in the lease of 5.8% per annum. The Company's total accrued or paid payments for its leases were \$462,327 in the six months ended June 30, 2022 (2021 - \$62,869).

The consolidated statement of loss and comprehensive loss shows the following amounts relating to leases:

	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021</b>
Amortization charge of equipment right-of-use assets	\$ 256,325	\$ 6,128
Amortization charge of building right-of-use assets	120,643	118,351
Interest expense	155,739	124,475
	\$ <b>532,707</b>	\$ <b>248,954</b>
	<b>Three months ended June 30, 2022</b>	<b>Three months ended June 30, 2021</b>
Amortization charge of equipment right-of-use assets	\$ 253,123	\$ 3,016
Amortization charge of building right-of-use assets	60,551	58,259
Interest expense	91,618	60,254
	\$ <b>405,292</b>	\$ <b>121,529</b>

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The Company's lease liability related to equipment and the building is as follows:

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
<b>Lease liability</b>				
Current portion	\$	1,144,856	\$	138,647
Long-term portion		3,194,857		2,443,946
<b>Total lease liability</b>	<b>\$</b>	<b>4,339,713</b>	<b>\$</b>	<b>2,582,593</b>

Changes in lease liabilities are due to the following:

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
Balance, beginning of period	\$	2,582,593	\$	26,641
New lease liabilities		1,967,802		2,459,395
Interest		155,739		251,754
Payments		(188,897)		(160,764)
Reclassification of lease liability to accounts payable upon derecognition of lease liability		(273,430)		(15,704)
Effect of changes in foreign exchange rates		95,906		21,271
<b>Balance, end of period</b>	<b>\$</b>	<b>4,339,713</b>	<b>\$</b>	<b>2,582,593</b>

The Company is committed to minimum lease payments as follows:

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
<b>Maturity analysis</b>				
Less than one year	\$	1,470,872	\$	390,557
One year to five years		2,482,947		1,625,842
More than five years		1,885,721		2,076,047
<b>Total undiscounted lease liabilities</b>		<b>5,839,540</b>		<b>4,092,446</b>
Less: unearned interest		(1,499,827)		(1,509,853)
<b>Total lease liability</b>	<b>\$</b>	<b>4,339,713</b>	<b>\$</b>	<b>2,582,593</b>

**13. Accounts Payables and Accrued Liabilities**

		<b>June 30, 2022</b>		<b>December 31, 2021</b>
Trade payables	\$	772,885	\$	1,071,994
Accrued liabilities		54,496		144,490
	<b>\$</b>	<b>827,381</b>	<b>\$</b>	<b>1,216,484</b>

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**14. Loans Payable**

- a) On May 16, 2020 (“date of advance”), GFBS received a loan for gross proceeds of \$210,330 (USD \$150,000) from the U.S. Small Business Administration under the Economic Injury Disaster Loan program. The loan bears annual interest at a rate of 3.75%. Monthly repayments of \$996 (USD\$731) commence 12 months from the date of advance and will be applied first to interest, then to principal and the loan matures 30 years from the date of advance. The benefit of the government loan received at below market rate of interest is treated as a government grant. The loan was recognized at fair value using the Company’s estimated incremental borrowing rate of 10%, which resulted in a fair value of \$140,887. The difference between the initial carrying amount and proceeds received is the value of the government assistance of \$54,047 for the year-ended December 31, 2020. The Company received an additional USD\$3,000 (CAD\$4,206) for total proceeds of USD\$153,000 (CAD\$214,536). Effective March 17, 2021, the loan was amended to defer repayments by an additional 12 months. The extended term was determined to be a modification of debt and resulted in recognition of a gain on modification of debt of \$5,224 (USD \$4,167) for the year ended December 31, 2021. As at June 30, 2022, accrued interest of \$14,899 (USD\$11,719) is recorded in accounts payable and accrued liabilities.

The loan is secured by all tangible and intangible property of the borrower as at the agreement date and any property acquired by the borrower after the agreement date.

The balance outstanding at June 30, 2022 is as follows:

Balance, December 31, 2020	\$	144,117
Accretion expense		1,537
Modification of debt		(5,224)
Foreign exchange adjustment		(565)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>139,865</b>
Accretion expense		802
Foreign exchange adjustment		2,148
Total loan balance, June 30, 2022		142,815
Less current portion		(12,937)
<b>Non-current balance, June 30, 2022</b>	<b>\$</b>	<b>129,878</b>

- b) On September 15, 2020, The Company, through its subsidiary, GFBS, entered into a financing agreement for equipment purchased for USD\$49,187 (CAD\$62,679). The loan commenced on September 15, 2020, has an effective interest rate of 9.91%, and matures on August 15, 2024. The Company is required to make monthly payments of USD\$1,215 (CAD\$1,623) and the balance of the loan is due on maturity.

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Balance, December 31, 2020	\$	59,524
Loan repayments		(19,306)
Interest		5,061
Foreign exchange adjustment		(401)
<b>Balance, December 31, 2021</b>		<b>44,878</b>
Loan repayments		(9,748)
Interest		2,054
Foreign exchange adjustment		575
Total loan balance, June 30, 2022		<b>37,759</b>
Less current portion		(15,754)
<b>Non-current balance, June 30, 2022</b>	<b>\$</b>	<b>22,005</b>

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The loan is secured by the equipment purchased with the proceeds of the loan. See Note 18.

- c) On July 1, 2020, the Company's wholly-owned subsidiary entered into an unsecured revolving loan facility with a related party for up to USD\$200,000. The outstanding balance, if any, on the revolving loan is due on or before December 31, 2025. The facility bears interest of 6% per annum. The balance due on the revolving loan facility as of June 30, 2022 was \$222,041 (December 31, 2021 - \$218,701). As at June 30, 2022, accrued interest of \$14,051 (USD\$10,900) (December 31, 2021 - \$7,374 (USD\$5,808)) in connection with the revolving loan facility is recorded in accounts payable and accrued liabilities. See Note 18.
- d) On July 1, 2020, the Company's wholly-owned subsidiary entered into an unsecured revolving loan facility with a related party for up to USD\$200,000. The outstanding balance, if any, on the revolving loan is due on or before December 31, 2025. The facility bears interest of 6% per annum. In February 2022, the Company drew down USD\$200,000 on the facility. On April 19, 2022, the Company repaid \$201,670 in principal and accrued interest. The balance due on the revolving loan facility as of June 30, 2022 was \$nil (December 31, 2021 - \$nil). As at June 30, 2022, accrued interest of \$nil (December 31, 2021 - \$nil) in connection with the revolving loan facility is recorded in accounts payable and accrued liabilities. See Note 18.

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### 15. Convertible Notes

	Series I	Series II	Series III	Total
Balance at December 31, 2020	\$ 844,632	\$ -	\$ -	\$ 844,632
Issuance	439,396	380,123	248,776	1,068,295
Interest	68,629	13,617	21,762	104,008
Change in fair value	331,735	-	141,490	473,225
Transfer to share capital upon conversion	(1,683,252)	(389,087)	(381,730)	(2,454,070)
Foreign exchange adjustment	(1,140)	(4,653)	1,539	(4,253)
<b>Balance at December 31, 2021</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 31,837</b>	<b>\$ 31,837</b>
Interest	-	-	1,045	1,045
Change in fair value	-	-	216	216
Transfer to share capital upon conversion	-	-	(32,793)	(32,793)
Foreign exchange adjustment	-	-	(305)	(305)
<b>Balance at June 30, 2022</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

#### Series I

Between November 2020 and January 2021, the Company closed the Series I financing and issued convertible notes to various subscribers for total proceeds of \$1,288,539 (US\$999,990). The Series I convertible notes bear interest at 8% per annum, has a term of 24 months and are secured by a floating charge on all assets of the Company. If the Company or Nepra US (Note 20) completes a listing of its common shares on a stock exchange in Canada or the United States, the principal and interest shall automatically be converted into the listed common shares at a price equal to 80% of the issuance price upon listing or \$0.10 per share.

The Company has designated these Series I convertible notes to be measured at fair value through profit or loss (FVTPL). At inception, the fair value of the instruments was measured at the transaction amounts. There was nil gain or loss on change in fair value recorded in 2020 as their fair values approximate the carrying amount as at December 31, 2020.

On September 17, 2021, the outstanding principal and interest of Series I convertible notes in the amount of \$1,346,602 were automatically converted into 3,581,387 common shares at a price of \$0.376 per share when the Company completed its initial public offering. The fair value of these convertible notes was remeasured immediately prior to the conversion, resulting in a loss of \$331,735 on change in the fair value recorded for the difference between the conversion price and the share price of the initial public offering.

#### Series II

On April 2, 2021, Nepra US closed the Series II financing and issued convertible notes to four subscribers for total proceeds of \$380,123 (US\$295,000). The Series II convertible notes bear interest at 8% per annum, has a term of 24 months and are secured by a floating charge on all assets of the Company. If the Company or Nepra US completes a listing of its common shares on a stock exchange in Canada or the United States, the



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principal and interest of the Series II convertible notes shall automatically be converted into the listed common shares at a price equal to the greater of the issuance price upon listing and \$0.10 per share.

The Company has designated these Series II convertible note to be measured at FVTPL. At inception, the fair value of these instruments was measured at the transaction amounts. On September 17, 2021, the outstanding principal and interest of the Series I convertible notes in the amount of \$389,087 were automatically converted into 827,844 common shares at a price of \$0.47 per share when the Company completed its initial public offering. There was nil change in fair value recorded upon the conversion of these Series II convertible notes.

### Series III

On June 11, 2021, the Company closed the Series III financing and issued convertible notes to various subscribers for total proceeds of \$230,000. The Series III convertible notes bear interest at 9% per annum, has a term of 12 months and are secured by a floating charge on all assets of the Company. On August 11, 2021, the Company issued another Series III convertible note for \$18,776 (US\$15,000) at the same term.

Following 121 days after the issue date to the maturity dates, the principal and any accrued and unpaid interest of the Series III Secured Notes is convertible at the option of the holder, in whole or in part, into the Company's common shares at the greater of the share issuance price upon listing and \$0.10 per share. In addition, following 121 days after the issue date and 10 days immediately before the maturity date, if the Company's common shares are trading on a stock exchange in Canada or the United States and the closing price is equal to or greater than \$0.60 per share for a period of 10 consecutive trading days, the Company can convert the principal amount plus the accrued and unpaid interest to the date of maturity into its common shares at the greater of the issuance price of initial public offering and \$0.10 per share.

The Company has designated these Series III convertible note to be measured at FVTPL. At inception, the fair value of these instruments was measured at the transaction amounts.

During the year ended December 31, 2021, there were total \$250,699 outstanding principal plus interest of Series III convertible notes converted into 533,402 common shares of the Company at a price of \$0.47 per share. The fair value of these Series III convertible notes was remeasured immediately prior to the conversion, resulting in a loss of \$129,495 on change in the fair value during the period from the issuance date to the conversion dates. The fair values of the Series III convertible notes was estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 91.82% to 95.78%, risk free interest rate of 0.63% to 0.89%, expected life of 0.58 to 0.65 years, exercise price of \$0.47, a dividend yield of 0%, and a share price of \$0.67 to \$0.74.

As at December 31, 2021, the fair value of the remaining Series III convertible note increased by \$11,995. The fair value of this Series III convertible note was estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 83.19%, risk free interest rate of 0.91%, expected life of 0.61 years, exercise price of \$0.47, a dividend yield of 0%, and a share price of \$0.68.

During the six-months ended June 30, 2022, the outstanding Series III convertible note with total principal plus interest of \$20,648 (USD \$16,350) were converted into 43,932 common shares of the Company at a price of \$0.47 per share. The fair value of this Series III convertible note was remeasured immediately prior to the conversion resulting in a loss of \$216 change in the fair value. The fair value of the Series III note was estimated

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using the Black-Scholes pricing model and the following assumptions: estimated volatility of 96.52%, risk free interest rate of 1.21%, expected life of 0.54 years, exercise price of \$0.47, a dividend yield of 0%, and a share price of \$0.67.

### 16. Deferred revenue

Payments received from customers prior to the point in time when the title, risks and rewards of the goods transfers to the customer as per each customer's agreement are recorded as deferred revenue. As at June 30, 2022, \$42,334 (December 31, 2021 - \$267,921) is included in deferred revenue.

### 17. Share Capital and reserves

On April 16, 2021, the Company completed the RTO of Nepra US. As the financial statements are considered a continuance of the operations of Nepra US and due to the reverse takeover, all of the share numbers and share prices in these financial statements have been adjusted, on a retroactive basis, to reflect this exchange.

#### Authorized capital

The Company is authorized to issue unlimited common shares and unlimited Class A common shares with no par value.

#### Issued capital

*During the six months ended June 30, 2022*

- On January 24, 2022, the Company issued 42,500 common shares upon conversion of 42,500 restricted share units with a total value of \$28,263 based on the fair value on the grant date of the restricted share units
- On January 25, 2022, the Company issued 43,932 upon conversion of Series III convertible note with a fair value of \$32,792 (Note 15).
- On March 30, 2022 the Company completed a prospectus offering issuing 10,000,000 units for gross proceeds of \$4,500,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.70 for 36 months from the closing date of March 30, 2022. The fair value of the warrants issued as part of the units was estimated to be \$300,000 using the residual value method. In connection with the prospectus offering, the Company incurred cash share issuance costs of \$578,732 and issued 641,760 finders' warrants valued at \$157,313 in connection with the prospectus offering. The fair value of the finders' warrants was estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 110.49%, risk free interest rate of 2.31%, expected life of 3 years, exercise price of \$0.70, a dividend yield of 0%, and a share price of \$0.42.
- On May 18, 2022, the Company issued 100,000 common shares upon the conversion of 100,000 restricted share units with a total value of \$73,625 based on the fair value on the grant date of the restricted share units.
- On June 3, 2022, the Company issued 42,500 common shares upon the conversion of 42,500 restricted share units with a total value of \$28,262 based on the fair value on the grant date of the restricted share units.
- The Company recognized share-based payments of \$188,689 and \$591,648 (2021 - \$nil) during the three and six months ended June 30, 2022.

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*During the six months ended June 30, 2021*

- On February 24, 2021, the Company issued 997,426 common shares valued at \$39,361 to settle outstanding debt of US\$30,888 (CAD\$39,361).
- On March 5, 2021, the Company closed a private placement and issued 9,999,971 common shares for proceeds of US\$350,000 (CAD\$443,642).
- On April 16, 2021, 100 common shares were issued in connection with the RTO between the Company and Nepra US.

### Stock Options

#### *Stock Option Plan*

The Stock Option Plan was adopted by the Company's board of directors on April 16, 2021. The aggregate number of common shares which are reserved for issuance under the Stock Option Plan may not exceed 11,789,310. The exercise price of any stock options granted under the Option Plan shall be determined by the Compensation Committee of the Board, but may not be less than the greater of the closing market price of the Common Shares on (a) the trading day prior to the date of grant of the stock options; and (b) the date of grant of the stock options. The term of any stock option under the Option Plan shall be determined by the Compensation Committee of the Board but shall not exceed 10 years from the grant date. Vesting conditions of any stock options granted under the Stock Option Plan shall be determined by the Board at the time of grant.

#### *Stock Option Activity*

*During the six months ended June 30, 2022*

- On January 1, 2022, the Company issued 100,000 stock options with an exercise price of \$0.68, expiring on January 1, 2027 and vest as follows: 12.5% on grant date, 12.5% on April 1, 2022, 12.5% on July 1, 2022, 12.5% on October 1, 2022, 12.5% on January 1, 2023, 12.5% on April 1, 2023, 12.5% on July 1, 2023 and 12.5% on October 1, 2023. The grant date fair value of the options was \$41,269 which was estimated using the Black-Scholes option pricing model and the following assumptions: estimated volatility of 77%, risk free interest rate of 1.32%, expected life of 5 years, exercise price of \$0.68, a dividend yield of 0%, and a share price of \$0.665.
- During the three and six months ended June 30, 2022, the Company recorded share-based payments of \$115,699 and \$346,742 in the statement of loss and comprehensive loss for stock options vested in the period. As of June 30, 2022, 845,000 stock options have fully vested.

Stock option activities are summarized in the table below:

	Number of Stock Options	Weighted Average Exercise Price
<b>Balance, December 31, 2020</b>	-	-
Granted	2,050,000	\$0.47
<b>Balance, December 31, 2021</b>	2,050,000	\$0.47
Granted	100,000	\$0.68
<b>Balance, June 30, 2022</b>	2,150,000	\$0.48

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Details of the share options outstanding and exercisable as at June 30, 2022 are as follows:

<b>Expiry date</b>	<b>Number of Options Outstanding</b>	<b>Number of Options Vested</b>	<b>Exercise Price</b>
September 17, 2031	2,050,000	820,000	\$0.47
January 1, 2027	100,000	12,500	\$0.68
<b>Balance, June 30, 2022</b>	<b>2,150,000</b>	<b>832,500</b>	<b>\$0.48</b>

As of June 30, 2022, the weighted average remaining life for outstanding options was 9.00 years.

**Warrants**

*During the six months ended June 30, 2022*

- On March 30, 2022 the Company issued 10,000,000 warrants as part of the units issued in the prospectus offering. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.70 for 36 months from the closing date of March 30, 2022.
- On March 30, 2022 the Company issued 641,760 finders' warrants valued at \$157,313 in connection with the prospectus offering. The fair value of the finders' warrants was estimated using the Black-Scholes pricing model and the following assumptions: estimated volatility of 110.49%, risk free interest rate of 2.31%, expected life of 3 years, exercise price of \$0.70, a dividend yield of 0%, and a share price of \$0.42.

Warrant activities are summarized in the table below:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
<b>Balance, December 31, 2020</b>	-	-
Granted	898,889	\$0.47
Exercised	(19,500)	\$0.47
<b>Balance, December 31, 2021</b>	<b>879,389</b>	<b>\$0.47</b>
Granted	10,641,760	\$0.70
<b>Balance, June 30, 2022</b>	<b>11,521,149</b>	<b>\$0.68</b>

Details of the warrants outstanding and exercisable as at June 30, 2022 are as follows:

<b>Expiry date</b>	<b>Number of Warrants</b>	<b>Exercise Price</b>
September 17, 2023	879,389	\$0.47
March 30, 2025	10,641,760	\$0.70
<b>Balance, June 30, 2022</b>	<b>11,521,149</b>	<b>\$0.68</b>

As of June 30, 2022, the weighted average remaining life for outstanding warrants was 2.63 years.

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**Restricted Share Units (“RSUs”)***During the six months ended June 30, 2022*

- On January 1, 2022, the Company granted 270,000 RSUs to employees of the Company which vest as follows: 25% April 1, 2022, 25% July 1, 2022, 25% October 1, 2022 and 25% January 1, 2023
- On January 1, 2022, the Company issued 42,500 common shares upon conversion of 42,500 RSUs with a fair value of \$28,263
- On May 18, 2022, the Company issued 100,000 common shares upon conversion of 100,000 RSUs with a fair value of \$73,625.
- On June 3, 2022, the Company issued 42,500 common shares upon conversion of 42,500 RSUs with a fair value of \$28,263.
- During the three and six months ended June 30, 2022, the Company recorded share-based payments of \$72,990 and \$244,906 in the statement of loss and comprehensive loss for RSUs vested in the period. As of June 30, 2022, 185,000 RSUs have fully vested.

Restricted share unit activities are summarized in the table below:

	Number of RSUs	Weighted Average Issuance Price
<b>Balance, December 31, 2020</b>	-	-
Granted	300,000	\$0.76
<b>Balance, December 31, 2021</b>	300,000	\$0.76
Granted	270,000	\$0.665
Converted	(185,000)	\$0.704
Forfeited	(225,000)	\$0.76
<b>Balance, June 30, 2022</b>	160,000	\$0.67

Details of the restricted share units outstanding and exercisable as at June 30, 2022 are as follows:

Grant date	Number of RSUs Outstanding	Number of RSUs Vested	Issuance Value
January 1, 2022	160,000	-	\$0.665
<b>Balance, June 30, 2021</b>	160,000	-	\$0.665

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### 18. Related Party Transactions

#### *a) Due to/from related parties*

As at June 30, 2022, included in due from related parties is \$8,789 (December 31, 2021 - \$8,657) due from a director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in due from related parties is \$772 (December 31, 2021 - \$761) due from a director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in due from related parties is \$11,280 (December 31, 2021 - \$nil) due from the estate of a former President and COO of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in due from related parties is \$6,719 (December 31, 2021 - \$nil) due from a company controlled by the CEO and Director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$23,924 (December 31, 2021 - \$24,119) due to a director of the Company. The amount consists of expenses charged to a personal credit card of a director of the Company and is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$71,136 (December 31, 2021 - \$44,494) due to a company controlled by the CFO and Director of the Company. The amount consists of accounting and corporate secretarial fees charged and is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$nil (December 31, 2021 - \$24,388) due to a company controlled by the CEO and Director of the Company. The amount consists of expense reimbursements owed and is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$35,831 (December 31, 2021 - \$nil) due to the Vice President of Ingredient Sales of the Company. The amount consists of salaries and expenses owed and is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$656 (December 31, 2021 - \$nil) due to a relative of the CEO and Director of the Company. The amount consists of expense reimbursements owed and is unsecured, non-interest bearing and due on demand.

As at June 30, 2022, included in accounts payable and accrued liabilities is \$4,037 (December 31, 2021 - \$15,907) due to a company controlled by the CEO and Director of the Company. The amount consists of lease payments owed and is unsecured, non-interest bearing and due on demand.

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As at June 30, 2022, included in accounts payable and accrued liabilities is \$nil (December 31, 2021 – \$68,248) due to the estate of a former President and COO of the Company. The amount consists of termination benefits owed and is unsecured, non-interest bearing and due on demand.

On October 16, 2017, the Company entered into an equipment lease agreement with a monthly rental fee of USD\$1,044 (CAD\$1,395) (Note 11). As at June 30, 2022, included in lease liability is \$5,273 (December 31, 2021 - \$12,668) for an equipment lease entered into with a company controlled by the CEO and Director of the Company.

*b) Related party transactions*

Key management consists of the directors and officers who are responsible for planning, directing, and controlling the activities of the Company. The Company incurred charges with related parties recorded at their exchange amounts as agreed upon by transacting parties as follows:

<b>For the six months ended June 30,</b>		<b>2022</b>		<b>2021</b>
Salaries and benefits	\$	774,613	\$	399,305
Share-based payments		451,025		-
	<b>\$</b>	<b>1,225,638</b>	<b>\$</b>	<b>399,305</b>

  

<b>For the three months ended June 30,</b>		<b>2022</b>		<b>2021</b>
Salaries and benefits	\$	349,336	\$	236,342
Share-based payments		151,645		-
	<b>\$</b>	<b>500,981</b>	<b>\$</b>	<b>236,342</b>

*Other transactions*

During the year ended December 31, 2020, the Company entered into an unsecured revolving loan facility with companies controlled by the CEO and Director of the Company for up to a total of USD\$400,000. The loan facility is unsecured, bears interest at a rate of 6% per annum, and matures on December 31, 2025. On January 1, 2022, the revolving loan facility was amended to increase the amount by USD \$200,000 resulting in an amended total of USD \$600,000. During the six months ended June 30, 2022 the Company received additional loan proceeds of USD\$400,500. The balance payable as of June 30, 2022 was \$222,041 (December 31, 2021 - \$218,701). Interest of \$14,051 (December 31, 2021 - \$7,374) for the revolving note was charged and included in accounts payable and accrued liabilities. The Company incurred interest expense of \$2,368 \$8,597 in the three and six months ended June 30, 2022. See Note 14.

During the three and six months ended June 30, 2022, \$130,781 and \$157,235 (2021 – \$nil and \$nil) was charged by a Company controlled by the CFO and Director of the Company for accounting and corporate secretarial fees.

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During the six months ended June 30, 2022, the Company purchased equipment of \$8,963 (2021 - \$nil) from the Company's Vice President of Research and Development.

During the six months ended June 30, 2021, the Company settled debt owing to a Company controlled by the CFO of \$39,361 in exchange for 997,426 common shares of the Company.

During the three and six months ended June 30, 2022, the Company was charged USD\$3,132 (CAD\$3,997) and USD\$6,264 (CAD\$7,964) (2021 – USD\$3,312 or CAD\$3,997 and USD\$6,264 or CAD\$7,764) in lease payments for equipment by a company controlled by the CEO and Director.

### 19. Supplemental Disclosure with Respect to Cash Flows

	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Cash paid for interest	\$ 169,769	\$ 23,192
Shares issued for reverse takeover	-	251
Equipment purchases included in accounts payable and accrued liabilities	31,305	-
Lease payments included in accounts payable and accrued liabilities	7,964	7,813
Fair value of shares issued for debt settlement	\$ -	\$ 39,361

### 20. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue its operations as well as to ensure that the Company is able to meet its financial obligations as they become due. The capital structure consists of owners' equity comprising of loans payable, convertible notes, share capital, and retained earnings (deficit).

The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. To maintain or adjust the capital structure, the Company may issue new shares through private placement, incur debt, or return capital to shareholders.

The Company believes it will be able to raise capital as required in the long term but recognizes there will be risks involved that may be beyond its control. There are no external restrictions on the management of capital.

The Company does not presently utilize any quantitative measures to monitor its capital, but rather relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable. There was no change to the Company's approach to capital management during the six months ended June 30, 2022.



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### 21. Financial Instruments and Risk Management

The Company is exposed, through its operations, to the following financial risks:

- a) Market Risk
- b) Credit Risk
- c) Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies, and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

General Objectives, Policies, and Processes:

The directors and officers have overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The directors and officers review the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous reported periods unless otherwise stated in the note.

The overall objective of the directors and officers is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### a) Market Risk

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

##### (i) Foreign Currency Risk:

The Company generates revenues and incurs capital expenditures primarily through its subsidiaries in United States dollars. The functional currency of the Company's subsidiary is the United States dollar. In addition, the Company hold financial assets and liabilities in foreign currencies that expose the Company to the foreign exchange risks. Assuming all other variables remain constant, a 5% weakening or strengthening of the Canadian dollar would result in approximately \$208,000 foreign exchange gain or loss in the consolidated statement of comprehensive loss.

##### (ii) Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate because of changes in market interest rates. The interest earned on cash is insignificant, and the Company does not rely on interest to fund its operations. The Company's outstanding loans payable and convertible notes

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bear interest at fixed rates. As a result, at June 30, 2022, management believes that the Company is not exposed to any significant interest rate risk.

**b) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's cash, due from related party and accounts receivable are exposed to credit risk. The Company limits its exposure to credit loss on cash by placing its cash with high-quality financial institutions. The Company has concentrations of credit risk with respect to accounts receivable as large amounts of its accounts receivable are concentrated amongst a small number of customers. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. The Company has certain amounts of aged receivables that are not deemed impaired as follows:

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
1 – 60 days	\$ 620,245	\$ 567,379
61 - 90 days (past due)	56,787	-
Over 90 days (past due)	37,228	24,769
Provision for expected credit losses	(3,868)	(1,905)
<b>Total</b>	<b>\$ 710,392</b>	<b>\$ 590,243</b>

The Company is exposed to increased credit risk due to major customers that comprise 10% or more of revenue. For the three and six months ended June 30, 2022 and 2021, the following revenue was recorded from major customers:

	<b>Six months ended June 30, 2022</b>	<b>Six months ended June 30, 2021</b>
Customer A	\$ 850,246	\$ 1,119,929
Customer B	\$ 1,614,184	\$ 1,001,862

	<b>Three months ended June 30, 2022</b>	<b>Three months ended June 30, 2021</b>
Customer A	\$ 850,246	\$ 544,312
Customer B	\$ 291,424	\$ 740,766

**c) 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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash. Historically, the Company's sources of funding has been through equity financings, loans from a company controlled by the CEO and Director, and convertible notes. The

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Company's access to financing is uncertain. There can be no assurance of continued access to significant debt or equity funding.

	<b>Within one year</b>	<b>Between one and five years</b>	<b>More than five years</b>
Accounts payable and accrued liabilities	\$ 827,381	\$ -	\$ -
Loans payable	30,097	354,363	275,267
Lease liability	1,470,872	2,482,947	1,885,721
	<b>\$ 2,328,350</b>	<b>\$ 2,837,310</b>	<b>\$ 2,160,988</b>

**d) Basis of Fair Value**

	<b>Level</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
<b>FINANCIAL ASSETS</b>			
<b>FVTPL</b>			
Cash	1	\$ 570,563	\$ 1,463,859
Restricted Cash		70,910	69,843
<b>Other assets, at amortized cost</b>			
Accounts receivable		730,793	590,243
Due from related party		27,560	9,418
<b>Total financial assets</b>		<b>\$ 1,399,826</b>	<b>\$ 2,133,363</b>
<b>FINANCIAL LIABILITIES</b>			
	<b>Level</b>	<b>June 30, 2022</b>	<b>December 31, 2021</b>
Convertible notes	2	\$ -	\$ 31,837
<b>Other liabilities, at amortized cost</b>			
Accounts payable and accrued liabilities		827,381	1,216,484
Loans payable		402,615	403,444
Promissory note payable		-	-
<b>Total financial liabilities</b>		<b>\$ 1,229,996</b>	<b>\$ 1,651,765</b>

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in

Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

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- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The Company uses judgment to select the methods used to make certain assumptions and in performing the fair value calculations in order to determine (a) the values attributed to each component of a transaction at the time of their issuance; (b) the fair value measurements for certain instruments that require subsequent measurement at fair value on a recurring basis; and (c) for disclosing the fair value of financial instruments subsequently carried at amortized cost. These valuation estimates could be significantly different because of the use of judgment and the inherent uncertainty in estimating the fair value of these instruments that are not quoted in an active market.

The carrying value of the Company's financial instruments approximate their fair values due to their short-term maturities. Cash is measured at fair value on a recurring basis.

### **22. Subsequent Events**

On July 12, 2022, the Company issued 67,500 common shares upon conversion of RSUs.