

NEPRA FOODS INC.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 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	December 31, 2022	December 31, 2021
ASSETS			
Current assets			
Cash		\$ 173,711	\$ 1,463,859
Restricted cash		74,520	69,843
Accounts receivable	5	461,372	590,243
Prepaid expenses and deposits	6	813,865	958,615
Inventory	7	2,100,734	1,815,796
Due from related party	18	10,044	9,418
		3,634,246	4,907,774
Property and equipment	8, 18	496,328	447,522
Intangible assets	9	17,960	20,693
Deferred acquisition costs	10	-	134,551
Right-of-use assets	11	2,832,750	2,299,631
Long-term deposit		259,391	107,591
Total assets		\$ 7,240,675	\$ 7,917,762
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	13, 18	\$ 1,051,449	\$ 1,216,484
Loans payable – current portion	14	30,445	15,257
Lease liability – current portion	12, 18	667,936	138,647
Convertible notes	15	-	31,837
Deferred revenue	16	15,101	267,921
		1,764,931	1,670,146
Lease liability	12, 18	2,590,176	2,443,946
Loans payable	14, 18	853,234	388,187
Total liabilities		5,208,341	4,502,279
Shareholders' equity			
Share capital	17, 18	14,308,519	10,608,472
Reserves	17	1,531,022	666,393
Accumulated other comprehensive income (loss)		209,817	(45,281)
Deficit		(14,017,024)	(7,814,101)
Total shareholders' equity		2,032,334	3,415,483
Total liabilities and shareholders' equity		\$ 7,240,675	\$ 7,917,762

Nature of operations and going concern (Note 1)

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 Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

	Notes	For the twelve months ended December 31,		For the three months ended December 31,	
		2022	2021	2022	2021
Revenue					
Sales	21	\$ 6,489,606	\$ 5,921,776	\$ 1,238,513	\$ 1,659,426
Consulting		36,405	130,333	15,267	244
		6,526,011	6,052,109	1,253,780	1,659,670
Cost of sales	7, 8, 11	5,439,445	5,299,023	1,019,876	1,683,971
		\$ 1,086,566	753,086	\$ 233,904	(24,301)
Expenses					
Accretion	14	1,646	1,537	431	457
Amortization	8, 9, 11	686,050	254,564	207,212	67,671
Bad debt		17,018	16,703	247	31
Consulting		239,745	1,816,208	63,531	1,286,219
General and administrative		2,051,504	991,048	340,183	440,982
Professional fees	18	448,046	713,341	51,219	136,095
Research and development		151,263	155,612	14,384	73,137
Salaries and benefits	18	2,525,995	1,802,930	536,157	515,302
Share-based payments	17, 18	610,616	719,137	22,831	599,172
Travel		126,589	89,977	25,716	32,556
		6,858,472	6,561,057	1,261,911	3,151,622
Net loss before other items		\$ (5,771,906)	\$ (5,807,971)	\$ (1,028,007)	\$ (3,175,923)
Other items					
Foreign exchange		4,632	7,651	(508)	(17,450)
Interest income		12,737	10,143	3,204	2,692
Change in fair value of convertible debt		(221)	(473,226)	-	(300,134)
Gain on modification of debt		-	5,224	-	5,224
Gain on conversion of debt		-	-	-	24,113
Finance costs	12, 14, 15, 18	(451,652)	(402,953)	(129,986)	(86,543)
Gain on fixed asset disposition		3,487	-	-	-
Transaction expense		-	(18,737)	-	33,170
Net loss		\$ (6,202,923)	\$ (6,679,869)	\$ (1,155,297)	\$ (3,514,851)
Other comprehensive income (items that may be reclassified to profit or loss)					
Exchange difference on translation between presentation and functional currencies		255,098	(50,441)	(35,371)	(11,051)
Comprehensive loss		\$ (5,947,825)	\$ (6,730,310)	\$ (1,190,668)	\$ (3,525,902)
Loss per share, basic and diluted		\$ (0.14)	\$ (0.35)	\$ (0.02)	\$ (0.10)
Weighted average number of shares outstanding, basic and diluted		45,243,380	19,225,623	49,753,566	36,575,023

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 Twelve Months Ended December 31, 2022 and 2021
(Expressed in Canadian Dollars)
(Unaudited)

	2022	2021
Operating activities		
Net loss	\$ (6,202,923)	\$ (6,679,869)
Adjustments for non-cash items		
Amortization	705,876	271,506
Bad debt	17,018	16,703
Write-off of inventory	13,124	6,142
Accretion	1,646	1,538
Interest	430,500	224,174
Change in fair value of convertible notes	221	473,226
Gain on modification of debt	-	(5,224)
Gain on fixed asset disposition	(3,487)	-
Transaction expense	-	18,737
Foreign exchange	(3,547)	(26)
Shared-based payments	610,616	719,137
Changes in non-cash working capital items:		
Accounts receivable	143,554	(458,886)
Prepaid expenses and deposits	56,507	(861,334)
Inventory	(151,939)	(1,257,100)
Accounts payable and accrued liabilities	(238,497)	651,088
Due to related party	-	(752)
Deferred revenue	(260,109)	264,504
Net cash used in operating activities	(4,881,440)	(6,616,436)
Investing activities		
Purchase of equipment	(221,948)	(390,893)
Equipment returned	93,916	-
Intangible assets	-	(20,429)
Cash acquired in reverse takeover	-	251
Deferred acquisition costs refunded	137,917	(132,835)
Net cash from (used in) investing activities	9,885	(543,906)
Financing activities		
Proceeds from issuance of common shares	3,921,268	443,642
Net IPO proceeds	-	6,779,881
Proceeds from warrants exercised	-	9,165
Repayment of lease liability	(901,828)	-
Loan repayments	(19,306)	(21,796)
Revolving loan proceeds	450,317	-
Proceeds from convertible notes	-	1,068,295
Net cash provided by financing activities	3,450,451	8,279,187
Net increase/(decrease) in cash	(1,421,104)	1,118,845
Effect of change in foreign exchange rates on cash	135,633	(78,119)
Cash, beginning	1,533,702	492,976
Cash, ending	\$ 248,231	\$ 1,533,702
Cash	173,711	1,463,859
Restricted cash	74,520	69,843
Cash, ending	248,231	1,533,702

Supplemental Disclosure with Respect to Cash Flows (Note 19)

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

NEPRA FOODS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

	Share capital			Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	Common shares*	Class A shares*	Amount				
Balance, December 31, 2020	3,655,711	273,468	\$ 829,358	\$ -	\$ 5,160	\$ (1,134,232)	\$ (299,714)
Shares issued for settlement of debt	997,426	-	39,361	-	-	-	39,361
Shares issued in private placement	9,999,971	-	443,642	-	-	-	443,642
Shares issued in RTO	100	-	251	-	-	-	251
Shares issued in IPO	15,903,465	-	6,228,975	251,921	-	-	6,480,896
Finder's shares	636,138	-	298,985	-	-	-	298,985
Shares issued for convertible debt	4,942,633	-	2,454,070	-	-	-	2,454,070
Shares issued for services	400,000	-	299,200	-	-	-	299,200
Warrants exercised	19,500	-	14,630	(5,465)	-	-	9,165
Share-based payments	-	-	-	359,810	-	-	359,810
Restricted share units	-	-	-	60,127	-	-	60,127
Currency translation adjustment	-	-	-	-	(50,441)	-	(50,441)
Net loss	-	-	-	-	-	(6,679,869)	(6,679,869)
Balance, December 31, 2021	36,554,944	273,468	\$ 10,608,472	\$ 666,393	\$ (45,281)	\$ (7,814,101)	\$ 3,415,483
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
Conversion of Class A shares	4,937,873	(49,379)	-	-	-	-	-
Conversion of restricted share units	295,000	-	203,300	(203,300)	-	-	-
Share-based payments	-	-	-	610,616	-	-	610,616
Currency translation adjustment	-	-	-	-	255,098	-	255,098
Net loss	-	-	-	-	-	(6,202,923)	(6,202,923)
Balance, December 31, 2022	51,831,749	224,089	\$ 14,308,519	\$ 1,531,022	\$ 209,817	\$ (14,017,024)	\$ 2,032,334

*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 condensed consolidated interim financial statements

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 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 December 14, 2022, the Company announced a change in its financial year end from December 31 to March 31. Accordingly, these financial statements present the Company’s financial results for the interim reporting periods of January 1 – December 31 of 2022 and 2021. The Company’s year end financial statements will present the Company’s financial results for a period of 15 months from January 1, 2022, to March 31, 2023. In those year end financial statements, comparative figures will be presented for the 12-month period of January 1, 2021 to December 31, 2021.

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 twelve months ended December 31, 2022, the Company had negative cash flows from operations of \$4,881,440, and as at December 31, 2022, had an accumulated deficit of \$14,017,024. 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 that the Company will be able to continue to raise capital in the future. These condensed consolidated interim financial statements do not give effect to any adjustments required for the Company to realize its assets and discharge its liabilities in other than its normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and related adverse public health developments has adversely affected workforces, economies, and financial markets globally. It is not possible for the Company to predict the duration or magnitude of potential future outbreaks and the related effects of future outbreaks 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 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 in these interim statements that are significant to understanding the Company's financial position and performance since the release of the previous annual consolidated financial statements for the year ended December 31, 2021. These condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise specified. The functional currency of the Company is the Canadian dollar and the functional currency of its wholly-owned subsidiaries is the US dollar.

These condensed consolidated interim financial statements were approved and authorized for issuance on March 1, 2023, 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 on 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.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 application 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 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

Accounts receivable is composed of the following amounts:

	December 31, 2022	December 31, 2021
Trade receivables	\$ 451,858	\$ 592,148
Sales tax receivable	25,189	-
Expected credit losses	(15,675)	(1,905)
Net accounts receivable	\$ 461,372	\$ 590,243

As at December 31, 2022, the Company had net accounts receivable of \$461,372 (December 31, 2021 - \$590,243). As at December 31, 2022, the Company has recorded an allowance for expected credit losses of \$15,675 (December 31, 2021 - \$1,905).

6. Prepaid Expenses and Deposits

Prepays and deposits are composed of the following amounts:

	December 31, 2022	December 31, 2021
Deposit on inventory	\$ 744,739	\$ 850,719
Insurance	4,911	89,321
Prepaid professional fees and other	64,215	18,575
	\$ 813,865	\$ 958,615

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

7. Inventory

Inventory consists primarily of raw materials and finished goods.

	December 31, 2022	December 31, 2021
Raw materials	\$ 11,361	\$ 201,323
Work-in-progress	2,894	13,530
Finished goods	2,086,479	1,600,943
	\$ 2,100,734	\$ 1,815,796

During the twelve months ended December 31, 2022, the Company sold inventory with a value of \$5,426,321 (2021 - \$5,292,881) and incurred inventory write-offs of \$13,124 (2021 - \$6,142) which are included in cost of sales.

8. Property and Equipment

	Furniture and equipment	Production equipment	Leasehold improvements	Computer equipment	Total
Cost					
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
Balance, December 31, 2021	\$ 171,905	\$ 211,139	\$ 54,820	\$ 53,428	\$ 491,292
Additions	4,796	104,843	86,902	3,147	199,688
Dispositions	(74,704)	(19,211)	-	-	(93,915)
Foreign exchange adjustment	8,594	17,485	7,151	3,676	36,906
Balance, December 31, 2022	\$ 110,591	\$ 314,256	\$ 148,873	\$ 60,251	\$ 633,971
Accumulated Amortization					
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
Balance, December 31, 2021	\$ 14,491	\$ 22,024	\$ 4,923	\$ 2,332	\$ 43,770
Amortization	23,435	38,955	17,263	11,268	90,921
Dispositions	(3,487)	-	-	-	(3,487)
Foreign exchange adjustment	1,768	3,037	1,024	610	6,439
Balance, December 31, 2022	\$ 36,207	\$ 64,016	\$ 23,210	\$ 14,210	\$ 137,643
Net Book Value					
At December 31, 2021	\$ 157,414	\$ 189,115	\$ 49,897	\$ 51,096	\$ 447,522
At December 31, 2022	\$ 74,384	\$ 250,240	\$ 125,663	\$ 46,041	\$ 496,328

Amortization of equipment used in production is included in the cost of inventory. During the twelve months ended December 31, 2022, amortization of \$19,826 (2021 - \$19,541) was included in the cost of inventory.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

9. Intangible Assets

	Trademark		Software		Total
Balance, December 31, 2020	\$	-	\$	-	-
Additions		11,276		9,154	20,430
Foreign exchange adjustment		145		118	263
Balance, December 31, 2021	\$	11,421	\$	9,272	\$ 20,693
Amortization		(780)		(3,168)	(3,948)
Foreign exchange adjustment		727		488	1,215
Balance, December 31, 2022	\$	11,368	\$	6,592	\$ 17,960

10. Deferred Acquisition Costs

During the twelve months ended December 31, 2021, the Company advanced \$134,551 in down payments and deposits to acquire production and manufacturing equipment to various suppliers. During the twelve months ended December 31, 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). During the twelve months ended December 31, 2022, the Company received a partial refund of \$117,793 for the previously issued deposits. The Company expects to receive \$17,566 relating to the remaining unrefunded portion of the deposits. This \$17,566 was reclassified to accounts receivable during the twelve months ended December 31, 2022.

At December 31, 2020	\$	-
Deposits and down payments		132,835
Foreign exchange adjustment		1,716
At December 31, 2021	\$	134,551
Refunds		(121,034)
Amount to be refunded (reclassified to accounts receivable)		(17,566)
Foreign exchange adjustment		4,049
At December 31, 2022	\$	-

11. Right-of-use Assets

Equipment

On October 16, 2017, the Company entered into an equipment lease agreement with a related party, that related party being a Company controlled by the COO and Director. The lease term commenced November 1, 2017 and ended on October 1, 2022. The Company paid a monthly rental fee of USD\$1,044 (CAD\$1,414) to the related party throughout the term of the lease (Note 18).

During the period ended December 31, 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 USD\$97,956 (CAD\$132,639) for the minimum lease term of 24 months. As of December 31, 2022, the Company is committed to paying a monthly rental fee of USD\$36,999 (CAD\$50,099) until at least March 31, 2024 based on the lease factor of 0.058 per dollar and a total cost of USD\$637,907 (CAD\$863,770) spent as of December 31, 2022.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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, commenced January 1, 2021 and expires on June 30, 2031. In connection with the lease agreement, the Company paid a security deposit of USD\$116,409 (CAD\$157,626) to be repaid as follows: USD\$77,606 (CAD\$105,084) after 24 months and USD\$38,803 (CAD\$52,542) 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:

At December 31, 2020	\$	148,340
Adjustment to fair value		(50,001)
Interest income		10,068
Foreign exchange adjustment		(816)
At December 31, 2021	\$	107,591
Interest income		11,365
Foreign exchange adjustment		7,796
At December 31, 2022	\$	126,752

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

Right-of-use assets	Equipment		Building		Total
At December 31, 2020	\$	22,958	\$	-	\$ 22,958
Additions		-		2,509,395	2,509,395
Amortization expense		(12,319)		(237,899)	(250,218)
Foreign exchange adjustment		(241)		17,737	17,496
At December 31, 2021	\$	10,398	\$	2,289,233	\$ 2,299,631
Additions		958,165		-	958,165
Amortization expense		(384,613)		(247,000)	(631,613)
Foreign exchange adjustment		64,486		142,081	206,567
At December 31, 2022	\$	648,436	\$	2,184,314	\$ 2,832,750

A portion of the amortization of equipment and building right-of-use assets is included in the cost of inventory. During the twelve months ended December 31, 2022, amortization of \$11,252 (2021 - \$12,319) was included in the cost of inventory.

12. Lease Liabilities

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 Master Lease Agreement has been calculated using a rate of 22% per annum. The lease liability of the building has been calculated using an incremental borrowing rate of 10% per annum. The Company's total accrued or paid payments for its leases were \$386,740 during the twelve months ended December 31, 2022 (2021 – \$176,468).

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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

	Twelve months ended December 31, 2022	Twelve months ended December 31, 2021
Amortization charge of right-of-use assets	631,613	250,218
Interest expense of lease liabilities	391,349	251,754
	\$ 1,022,962	\$ 501,972

	Three months ended December 31, 2022	Three months ended December 31, 2021
Amortization charge of right-of-use assets	193,913	62,907
Interest expense of lease liabilities	105,775	63,855
	\$ 299,688	\$ 126,762

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

Lease liability	December 31, 2022	December 31, 2021
Current portion	\$ 667,936	\$ 138,647
Long-term portion	2,590,176	2,443,946
Total lease liability	\$ 3,258,112	\$ 2,582,593

Changes in lease liabilities are due to the following:

	December 31, 2022	December 31, 2021
Balance, beginning of period	\$ 2,582,593	\$ 26,641
New lease liabilities	958,165	2,459,395
Interest	391,349	251,754
Payments	(890,568)	(160,764)
Reclassification of lease liability to accounts payable upon derecognition of lease liability	(13,587)	(15,704)
Effect of changes in foreign exchange rates	230,160	21,271
Balance, end of period	\$ 3,258,112	\$ 2,582,593

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

The Company is committed to minimum lease payments as follows:

	December 31, 2022	December 31, 2021
Maturity analysis		
Less than one year	\$ 1,015,617	\$ 390,557
One year to five years	1,936,148	1,625,842
More than five years	1,747,496	2,076,047
Total undiscounted lease liabilities	4,699,261	4,092,446
Less: unearned interest	(1,441,149)	(1,509,853)
Total lease liability	\$ 3,258,112	\$ 2,582,593

13. Accounts Payables and Accrued Liabilities

	December 31, 2022	December 31, 2021
Trade payables	\$ 761,169	\$ 1,071,994
Accrued liabilities	290,280	144,490
	\$ 1,051,449	\$ 1,216,484

14. Loans Payable

- a) On May 16, 2020 (“date of advance”), GFBS received a loan for gross proceeds of \$203,111 (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 \$990 (USD\$731) commenced 12 months from the date of advance and are applied first to interest and then to the loan’s principal. The loan matures 30 years from the date of advance. As this loan was granted at an interest rate below the market rate of interest, this loan 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 the Company recognizing the loan at an initial fair value of \$140,887. The Company received an additional \$4,062 (USD\$3,000) for total proceeds of \$214,536 (USD\$153,000). 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, as a result, a gain on the modification of this loan was recognized in the amount of CAD\$5,224 for the year ended December 31, 2021. As at December 31, 2022, accrued interest of \$18,912 (USD\$14,532) 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.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

The balance outstanding at December 31, 2022 is as follows:

Balance, December 31, 2020	\$	144,117
Accretion expense		1,537
Modification of debt		(5,224)
Foreign exchange adjustment		(565)
Balance, December 31, 2021	\$	139,865
Accretion expense		1,646
Foreign exchange adjustment		9,358
Total loan balance, December 31, 2022		150,869
Less: current portion		(13,578)
Non-current balance, December 31, 2022	\$	137,291

- b) On September 15, 2020, The Company, through its subsidiary, GFBS, entered into a financing agreement for equipment purchased for USD\$49,187 (CAD\$66,603). 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\$1,645) and the balance of the loan is due on maturity.

Balance, December 31, 2020	\$	59,524
Loan repayments		(19,306)
Interest		5,061
Foreign exchange adjustment		(401)
Balance, December 31, 2021		44,878
Loan repayments		(19,965)
Interest		3,832
Foreign exchange adjustment		2,330
Total loan balance, December 31, 2022		31,075
Less current portion		(16,867)
Non-current balance, December 31, 2022	\$	14,208

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. On January 1, 2022, the revolving loan facility was amended to increase the amount of the facility to USD\$600,000. The principal balance due on the revolving loan facility as of December 31, 2022 was \$701,735 (December 31, 2021 - \$218,701). As at December 31, 2022, accrued interest of \$28,322 (December 31, 2021 - \$7,374) in connection with the revolving loan facility is recorded in accounts payable and accrued liabilities. See Note 18.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

- 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 December 31, 2022, was \$nil (December 31, 2021 - \$nil). As at December 31, 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.

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)	(2,454,069)
Foreign exchange adjustment	(1,140)	(4,653)	1,539	(4,254)
Balance at December 31, 2021	\$ -	\$ -	\$ 31,837	\$ 31,837
Interest	-	-	1,073	1,073
Change in fair value	-	-	221	221
Transfer to share capital upon conversion	-	-	(32,793)	(32,793)
Foreign exchange adjustment	-	-	(338)	(338)
Balance at December 31, 2022	\$ -	\$ -	\$ -	\$ -

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 Company designated these Series I convertible notes to be measured at fair value through profit or loss (FVTPL). The Series I convertible notes bear interest at 8% per annum, had a term of 24 months and were secured by a floating charge on all assets of the Company. If the Company or Nepra US (Note 20) completed a listing of its common shares on a stock exchange in Canada or the United States, the principal and interest would automatically convert into the listed common shares at a price equal to 80% of the issuance price upon listing or \$0.10 per share.

On September 17, 2021, the outstanding principal and interest of the 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.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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, had a term of 24 months and were secured by a floating charge on all assets of the Company. If the Company or Nepra US completed a listing of its common shares on a stock exchange in Canada or the United States, the principal and interest of the Series II convertible notes would automatically convert 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 designated these Series II convertible notes 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 II convertible notes in the amount of \$389,087 was 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, had a term of 12 months and were 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 terms.

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 was 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 were trading on a stock exchange in Canada or the United States and the closing price was equal to or greater than \$0.60 per share for a period of 10 consecutive trading days, the Company could 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 had designated the Series III convertible notes 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, a total of \$250,699 in outstanding principal and interest of the Series III convertible notes was 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 the change in the fair value during the period between the issuance date and the conversion dates. The fair values of the Series III convertible notes were 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.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

During the twelve months ended 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 twelve months ended December 31, 2022, the outstanding Series III convertible note with total principal plus interest of \$32,792 (USD \$26,069) was 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 \$221 due to the change in the fair value. The fair value of the Series III note was estimated 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 title, risks and rewards of goods transfers to the customer as per each customer's agreement are recorded as deferred revenue. As at December 31, 2022, \$15,101 (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, all of the share numbers and share prices in these financial statements have been adjusted, on a retroactive basis, to reflect the share exchange that occurred during the RTO.

Authorized capital

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

Issued Capital

During the twelve months ended December 31, 2022:

- On January 24, 2022, the Company issued 42,500 common shares upon the conversion of 42,500 restricted share units with a total value of \$28,263, based on the fair value of the restricted share units on the date of grant.
- On January 25, 2022, the Company issued 43,932 common shares upon conversion of a 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 a 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

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

finders' warrants was estimated using the Black-Scholes pricing model using 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 of the restricted share units on the date of grant.
- 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 of the restricted share units on the date of grant.
- On July 12, 2022, the Company issued 67,500 common shares upon the conversion of 67,500 restricted share units with a total value of \$44,888 based on the fair value of the restricted share units on the date of grant.
- On September 27, 2022, the Company issued 1,416,219 common shares upon the conversion of 14,162 Class A shares.
- On November 29, 2022, the Company issued 3,521,654 common shares upon the conversion of 35,217 Class A shares.
- On December 8, 2022, the Company issued 42,500 common shares upon the conversion of 42,500 restricted share units with a total value of \$28,263 based on the fair value of the restricted share units on the date of grant.
- The Company recognized share-based payments of \$610,616 (for the three months ended December 31, 2022: \$22,831).

During the twelve months ended December 31, 2021:

- On February 24, 2021, the Company issued 997,426 common shares valued at \$39,361 to settle outstanding debt of USD\$30,888 (CAD\$39,361).
- On March 5, 2021, the Company closed a private placement and issued 9,999,971 common shares for proceeds \$443,642.
- On April 16, 2021, the Company issued 100 common shares in connection to the RTO between the Company and Nepra US.
- On September 17, 2021, the Company completed its initial public offering of 15,903,465 common shares at a price of \$0.47 per share for gross proceeds of \$7,474,629. The Company incurred cash share issuance costs of \$694,777, issued 636,138 common shares valued at \$298,985 as finder's fees, and issued 898,889 finder's warrants valued at \$251,921 using the Black Scholes pricing model. Each warrant is exercisable into one common share at an exercise price of \$0.47 until expiry on September 17, 2023.
- On September 17, 2021, the Company issued 3,581,387 common shares at a price of \$0.376 per share upon the conversion of the Series I convertible notes (Note 15).
- On September 17, 2021, the Company issued 827,844 common shares at a price of \$0.47 per share upon the conversion of the Series II convertible notes (Note 15).
- On October 14, 2021, the Company issued 185,531 common shares at a price of \$0.47 per share upon the conversion of Series III convertible notes (Note 15).
- On October 15, 2021, the Company issued 400,000 common shares valued at \$299,200 to a third party as consideration for marketing consulting services.
- On November 9, 2021, the Company issued 347,871 common shares at a price of \$0.47 per share upon the conversion of Series III convertible notes (Note 15).
- On November 10, 2021, the Company issued 19,500 common shares at a price of \$0.47 per share pursuant to the conversion of finder's warrants for gross proceeds of \$9,165. In connection with the exercise, an amount of \$5,465 was reclassified from reserves to share capital.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 Stock 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 Company's 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 Stock 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 twelve months ended December 31, 2022:

- On January 1, 2022, the Company issued 100,000 stock options with an exercise price of \$0.68, an expiry date of January 1, 2027, and that vest as follows: 12.5% on the date of grant, 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 these options was \$41,269 which was determined using the Black-Scholes option pricing model with the following input: 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 twelve months ended December 31, 2022, 350,000 options were cancelled.
- The Company recognized share-based payments of \$467,444 (for the three months ended December 31, 2022: \$22,728) relating to options in the statement of loss and comprehensive loss.

During the twelve months ended December 31, 2021:

- On September 17, 2021, the Company issued 2,050,000 stock options with an exercise price of \$0.47, an expiry date of September 17, 2031, and that vest as follows: 10% on the date of grant, 30% 6 months from the date of grant, 30% 12 months from the date of grant, and 30% 18 months from the date of grant. The grant date fair value of the options was \$860,734 which was determined using the Black-Scholes option pricing model with the following inputs: estimated volatility of 100%, risk free interest rate of 1.29%, expected life of 10 years, exercise price of \$0.47, a dividend yield of 0%, and a share price of \$0.47.
- The Company recognized share-based payments of \$359,810 (for the three months ended December 31, 2021: \$239,845) relating to options in the statement of loss and comprehensive loss.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

Stock option activities are summarized in the table below:

	Number of Stock Options	Weighted Average Exercise Price
Balance, December 31, 2020	-	-
Granted	2,050,000	\$0.47
Balance, December 31, 2021	2,050,000	\$0.47
Granted	100,000	\$0.68
Cancelled/forfeited	(350,000)	\$0.53
Balance, December 31, 2022	1,800,000	\$0.47

Details of the options outstanding as at December 31, 2022, are as follows:

Expiry date	Number of Options Outstanding	Number of Options Vested	Exercise Price
September 17, 2031	1,800,000	1,260,000	\$0.47
Balance, December 31, 2022	1,800,000	1,260,000	\$0.47

As of December 31, 2022, the weighted average remaining life of outstanding options is 8.72 years.

Warrants

During the twelve months ended December 31, 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 with 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.

During the twelve months ended December 31, 2021:

- On September 17, 2021, the Company issued 898,889 finder's warrants with a fair value of \$251,921. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.47 per common share until September 17, 2023. The fair value of these warrants was estimated using the Black-Scholes pricing model with the following assumptions: estimated volatility of 117.62%, risk free interest rate of 0.46%, expected life of 2 years, exercise price of \$0.47, a dividend yield of 0%, and a share price of \$0.47. Each finders' warrant entitles the holder to purchase one common share at a price of \$0.47 per common share until September 17, 2023.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

Warrant activity is summarized in the table below:

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

Details of the warrants outstanding as at September 30, 2022 are as follows:

Expiry date	Number of Warrants	Exercise Price
September 17, 2023	879,389	\$0.47
March 30, 2025	10,641,760	\$0.70
Balance, December 31, 2022	11,521,149	\$0.68

As of December 31, 2022, the weighted average remaining life for outstanding warrants was 2.13 years.

Restricted Share Units (“RSUs”)

During the twelve months ended December 31, 2022:

- On January 1, 2022, the Company granted 270,000 RSUs to employees of the Company which vest as follows: 25% on April 1, 2022, 25% on July 1, 2022, 25% on October 1, 2022 and 25% on 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.
- On July 12, 2022, the Company issued 67,500 common shares upon the conversion of 67,500 RSUs with a fair value of \$44,888.
- On December 8, 2022, the Company issued 42,500 common shares upon the conversion of 42,500 RSUs with a fair value of \$28,263.
- During the twelve months ended December 31, 2022, 275,000 RSUs were forfeited.
- The Company recognized share-based payments of \$143,173 (for the three months ended December 31, 2022: \$104) related to RSUs in the statement of loss and comprehensive loss.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

During the twelve months ended December 31, 2021:

- On October 1, 2021, the Company granted 300,000 RSUs to an officer of the Company. These RSUs expire on September 30, 2024 and vest as follows: 25% 6 months from the date of grant, 25% 12 months from the date of grant, 25% 18 months from the date of grant, and 25% 24 months from the date of grant.
- The Company recognized share-based payments of \$60,127 (for the three months ended December 31, 2021: \$60,127) related to RSUs in the statement of loss and comprehensive loss.

Restricted share unit activities are summarized in the table below:

	Number of RSUs	Weighted Average Issuance Price
Balance, December 31, 2020	-	-
Granted	300,000	\$0.76
Balance, December 31, 2021	300,000	\$0.76
Granted	270,000	\$0.67
Converted	(295,000)	\$0.69
Forfeited	(275,000)	\$0.74
Balance, December 31, 2022	-	-

18. Related Parties

The Company defines its related parties as its key members of management, companies controlled by its key members of management, and family members of its key members of management. Key members of management consist of the Directors and Officers who are responsible for planning, directing, and controlling the activities of the Company.

a) Related party balances

As at December 31, 2022, included in due from related parties is \$9,232 (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 December 31, 2022, included in due from related parties is \$812 (December 31, 2021 - \$761) due from the CEO and Director of the Company. The amount is unsecured, non-interest bearing and due on demand.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$60,270 (December 31, 2021 - \$24,119) due to a the CEO and Director of the Company. The amount consists of expenses charged to a personal credit card of a CEO and Director of the Company and is unsecured, non-interest bearing and due on demand.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$2,471 (December 31, 2021 - \$nil) due to a Director of the Company to reimburse expenses.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

As at December 31, 2022, included in accounts payable and accrued liabilities is \$153,760 (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 and is unsecured, non-interest bearing and due on demand.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$32,674 (December 31, 2021 – \$24,388) due to a company controlled by the COO and Director of the Company. The amount consists of interest owing and expense reimbursements and is unsecured, non-interest bearing and due on demand.

As at December 31, 2022, included in accounts payable and accrued liabilities is \$42,966 (2021 – \$nil) due to the COO and Director of the Company. The amount consists of salary owed and is unsecured, non-interest bearing and due on demand.

As at December 31, 2022 included in accounts payable and accrued liabilities is \$nil (December 31, 2021 – \$15,907) due to a company controlled by the COO and Director of the Company. The amount consisted of lease payments 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 company controlled by the COO and Director of the Company (Note 11). As at December 31, 2022, included in lease liabilities is \$nil (December 31, 2021 - \$12,668) related to this lease.

b) Related party transactions

The Company incurred charges with related parties recorded at the exchange amounts as agreed upon by transacting parties as follows:

For the twelve months ended December 31,	2022	2021
Salaries and benefits	\$ 1,290,607	\$ 1,165,058
Share-based payments	408,276	376,057
Termination benefits	-	169,228
	\$ 1,698,883	\$ 1,710,343

For the three months ended December 31,	2022	2021
Salaries and benefits	\$ 262,268	\$ 473,206
Share-based payments	72,227	270,282
Termination benefits	-	318
	\$ 334,495	\$ 743,806

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

c) Other transactions

During the year ended December 31, 2020, the Company entered into an unsecured revolving loan facility with companies controlled by the COO 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 twelve months ended December 31, 2022, the Company received additional loan proceeds of USD\$766,500 and repaid USD\$422,170 for net proceeds of USD\$344,330. The balance payable as of December 31, 2022 was USD\$518,241 (CAD\$701,735) (December 31, 2021 - CAD\$218,701). Interest of CAD\$28,322 (December 31, 2021 - \$7,374) for the revolving loan facility was charged and included in accounts payable and accrued liabilities. The Company incurred interest expense of CAD\$9,221 and CAD\$21,837 in the three and twelve months ended December 31, 2022, respectively. See Note 14.

During the three and twelve months ended December 31, 2022, \$26,049 and \$237,404 (2021 – \$67,198 and \$159,296) was charged by a Company controlled by the CFO and Director of the Company for accounting and corporate secretarial fees.

During the twelve months ended December 31, 2022, the Company purchased equipment of \$9,176 (2021 - \$nil) from the Company’s Vice President of Research and Development.

During the twelve months ended December 31, 2022, the Company purchased equipment from a Company controlled by the COO and Director of the Company for \$nil (2021 - \$59,005).

During the twelve months ended December 31, 2022, the Company was charged USD\$10,440, translated to CAD\$13,587 (2021 - USD\$12,812, translated to CAD\$15,704) in lease payments for equipment by a company controlled by the COO and Director.

During the twelve months ended December 31, 2021, the Company settled debt owing to a Company controlled by the CFO and Director of \$39,361 in exchange for 997,426 common shares of the Company.

19. Supplemental Disclosure with Respect to Cash Flows

	For the twelve months ended December 31, 2022	For the twelve months ended December 30, 2021
Cash paid for interest	\$ 21,152	178,779
Shares issued for reverse takeover	-	-
Equipment purchases included in accounts payable and accrued liabilities	2,418	24,470
Lease payments included in accounts payable and accrued liabilities	-	15,704
Fair value of shares issued for debt settlement	-	251
Fair value of convertible debt converted	\$ -	39,361

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 placements, 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 twelve months ended December 31, 2022.

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.

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, polices 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 much as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

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 holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. Assuming all other variables remain constant, a 5% weakening or strengthening of the Canadian dollar would result in approximately \$220,000 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 bear interest at fixed rates. As a result, at December 31, 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:

	December 31, 2022	December 31, 2021
1 – 60 days	\$ 371,083	\$ 567,379
61 - 90 days (past due)	30,260	-
Over 90 days (past due)	50,515	24,769
Provision for expected credit losses	(15,675)	(1,905)
Total	\$ 436,183	\$ 590,243

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

The Company is exposed to increased credit risk due to major customers that comprise 10% or more of revenue. For the three and twelve months ended December 31, 2022 and 2021, the following revenue was recorded from major customers:

	Twelve months ended December 31, 2022		Twelve months ended December 31, 2021	
Customer A	\$	2,178,503	\$	2,709,388
Customer B	\$	2,341,235	\$	1,923,319

	Three months ended December 31, 2022		Three months ended December 31, 2021	
Customer A	\$	270,744	\$	1,116,116
Customer B	\$	332,098	\$	438,819

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 have been through equity financings, loans from a company controlled by the COO and Director, and convertible notes. The Company's access to financing is uncertain. There can be no assurance of continued access to significant debt or equity funding. The following table displays the Company's aging undiscounted obligations:

	Within one year	Between one and five years	More than five years
Accounts payable and accrued liabilities	\$ 1,051,449	-	-
Loans payable	31,613	775,926	283,196
Lease liability	1,015,617	1,936,148	1,747,496
	\$ 2,098,679	2,712,074	2,030,692

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

d) Basis of Fair Value

	Level	December 31, 2022	December 31, 2021
FINANCIAL ASSETS			
FVTPL			
Cash	1	\$ 173,711	\$ 1,463,859
Restricted Cash		74,520	69,843
Other assets, at amortized cost			
Accounts receivable		461,372	590,243
Due from related party		10,044	9,418
Total financial assets		\$ 719,647	\$ 2,133,363
FINANCIAL LIABILITIES			
	Level	December 31, 2022	December 31, 2021
Convertible notes	2	\$ -	\$ 31,837
Other liabilities, at amortized cost			
Accounts payable and accrued liabilities		1,051,449	1,216,484
Loans payable		883,679	403,444
Total financial liabilities		\$ 1,935,128	\$ 1,651,765

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
- 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 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.

NEPRA FOODS INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the Three and Twelve Months Ended December 31, 2022, and 2021

(Expressed in Canadian Dollars)

(Unaudited)

22. Segmented Reporting

The Company operates in one reportable operating segment, being the production and sale of food ingredients. All of the Company's non-current assets are located in the United States.